

SK TELECOM CO LTD  
Form 6-K  
September 26, 2006

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 6-K**  
**REPORT OF FOREIGN PRIVATE ISSUER**  
**PURSUANT TO RULE 13a-16 OR 15d-16 OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE MONTH OF SEPTEMBER 2006**

**SK Telecom Co., Ltd.**

*(Translation of registrant's name into English)*

11, Euljiro2-ga Jung-gu  
Seoul 100-999, Korea

*(Address of principal executive offices)*

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): \_\_\_\_\_

*Note:* Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders. \_\_\_\_\_

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): \_\_\_\_\_

*Note:* Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submission to furnish a report or other document that the registration foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes  No

If Yes is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b):  
82- \_\_\_\_\_

***SK TELECOM CO., LTD.***  
***NON-CONSOLIDATED FINANCIAL STATEMENTS***  
***FOR THE THREE MONTHS AND SIX MONTHS***  
***ENDED JUNE 30, 2006 AND 2005***  
***AND INDEPENDENT ACCOUNTANTS REVIEW REPORT***

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**Independent Accountants' Review Report**

English Translation of a Report Originally Issued in Korean

To the Stockholders and Board of Directors of

SK Telecom Co., Ltd.

We have reviewed the accompanying non-consolidated balance sheet of SK Telecom Co., Ltd. (the Company) as of June 30, 2006 and the related non-consolidated statements of income and cash flows for the three months and six months ended June 30, 2006 and 2005, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with standards for review of interim financial statements in the Republic of Korea. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the non-consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the financial statements referred to above are not presented fairly, in all material respects, in conformity with accounting principles generally accepted in the Republic of Korea.

We have previously audited, in accordance with auditing standards generally accepted in the Republic of Korea, the non-consolidated balance sheet of the Company as of December 31, 2005, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the year then ended (not presented herein); and in our report dated February 3, 2006, we expressed an unqualified opinion on those non-consolidated financial statements. The accompanying balance sheet as of December 31, 2005, which is comparatively presented, does not differ in material respects from such audited non-consolidated balance sheet.

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Our reviews also comprehended the translation of the Korean won amounts into U.S. dollar amounts and nothing has come to our attention that causes us to believe that such translation has not been made in conformity with the basis stated in Note 2(a). Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea. Accounting principles and review standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting principles and review standards and their application in practice.

July 28, 2006

/s/ Deloitte Anjin LLC

Seoul, Republic of Korea

Notice to Readers

This report is effective as of July 28, 2006, the accountants' review report date. Certain subsequent events or circumstances may have occurred between the accountants' review report date and the time the accountants' review report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modification to the accountants' review report.

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**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED BALANCE SHEETS**  
**AS OF JUNE 30, 2006 AND DECEMBER 31, 2005**

|  | Korean won                        |                      | Translation into U.S.dollars<br>(Note 2) |                         |
|--|-----------------------------------|----------------------|--|-------------------------|
|  | June 30,<br>2006<br>(In millions) | December 31,<br>2005 | June 30,<br>2006<br>(In thousands)       | December<br>31,<br>2005 |
| <b>ASSETS</b>  |                                   |                      |  |                         |
| <b>CURRENT ASSETS:</b>   |                                   |                      |  |                         |
| Cash and cash equivalents (Notes 2 and 11)   | ₩ 621,127                         | ₩ 151,766            | \$ 654,852                               | \$ 160,006              |
| Short-term financial instruments (Note 18)   | 183,765                           | 73,062               | 193,743                                  | 77,029                  |
| Trading securities (Notes 2 and 3)   | 923,333                           | 745,360              | 973,467                                  | 785,830                 |
| Current portion of long-term investment securities (Notes 2 and 3)   | 64                                |                      | 67                                       |                         |
| Accounts receivable trade, net of allowance for doubtful accounts of ₩89,113 million as of June 30, 2006 and ₩121,319 million as of December 31, 2005 (Notes 2, 11 and 20) | 1,519,312                         | 1,607,596            | 1,601,805                                | 1,694,882               |
| Short-term loans, net of allowance for doubtful accounts of ₩9,144 million as of June 30, 2006 and ₩648 million as of December 31, 2005 (Notes 2, 5 and 20)                | 55,244                            | 64,150               | 58,244                                   | 67,633                  |
| Accounts receivable other, net of allowance for doubtful accounts of ₩18,192 million as of June 30, 2006 and ₩14,246 million as of December 31, 2005 (Notes 2, 11 and 20)  | 1,306,972                         | 1,333,238            | 1,377,936                                | 1,405,628               |
| Inventories (Note 2)   | 7,467                             | 5,986                | 7,872                                    | 6,311                   |
| Prepaid expenses   | 122,262                           | 101,274              | 128,900                                  | 106,773                 |
| Current deferred income tax assets, net (Notes 2 and 16)   | 63,664                            | 61,152               | 67,121                                   | 64,472                  |
| Advanced payments and other  | 19,510                            | 28,901               | 20,569                                   | 30,471                  |
| <b>Total Current Assets</b>  | <b>4,822,720</b>                  | <b>4,172,485</b>     | <b>5,084,576</b>                         | <b>4,399,035</b>        |
| <b>NON-CURRENT ASSETS:</b>   |                                   |                      |  |                         |
| Property and equipment, net (Notes 2, 6, 10, 19 and 20)  | 4,428,435                         | 4,595,883            | 4,668,882                                | 4,845,422               |
| Intangible assets, net (Notes 2, 7 and 23)   | 3,237,970                         | 3,386,547            | 3,413,780                                | 3,570,424               |
| Long-term investment securities (Notes 2 and 3)  | 1,038,513                         | 1,203,333            | 1,094,900                                | 1,268,669               |
| Equity securities accounted for using the equity method (Notes 2 and 4)  | 1,218,239                         | 925,904              | 1,284,385                                | 976,177                 |

|  |              |              |               |               |
|--|--------------|--------------|---------------|---------------|
| Long-term loans, net of allowance for doubtful accounts of ₩23,703 million as of June 30, 2006 and ₩23,737 million as of December 31, 2005 (Notes 2, 5 and 20) | 10,845       | 14,204       | 11,434        | 14,975        |
| Guarantee deposits, net of allowance for doubtful accounts of ₩311 million as of June 30, 2006 and December 31, 2005 (Notes 2, 11 and 20)                      | 119,279      | 122,846      | 125,755       | 129,516       |
| Long-term deposits and other (Note 18)   | 117,400      | 100,474      | 123,775       | 105,931       |
| <br>   |              |              |               |               |
| Total Non-current Assets   | 10,170,681   | 10,349,191   | 10,722,911    | 10,911,114    |
| <br>   |              |              |               |               |
| TOTAL ASSETS   | ₩ 14,993,401 | ₩ 14,521,676 | \$ 15,807,487 | \$ 15,310,149 |

(Continued)

**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**AS OF JUNE 30, 2006 AND DECEMBER 31, 2005**

|  | Korean won                        |                                       | Translation into U.S. dollars<br>(Note 2) |   |
|--|-----------------------------------|---------------------------------------|---|---|
|  | June 30,<br>2006<br>(In millions) | December 31,<br>2005<br>(In millions) | June 30,<br>2006<br>(In thousands)        | December<br>31,<br>2005<br>(In thousands) |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                                   |                                       |   |   |
| <b>CURRENT LIABILITIES:</b>  |                                   |                                       |   |   |
| Accounts payable (Notes 11 and 20)   | ₩ 915,079                         | ₩ 971,558                             | \$ 964,764                                | \$ 1,024,310                              |
| Income tax payable (Note 16)   | 325,045                           | 366,579                               | 342,694                                   | 386,483                                   |
| Accrued expenses (Notes 2 and 21)  | 456,085                           | 362,178                               | 480,849                                   | 381,843                                   |
| Dividend payable   | 360                               | 298                                   | 380                                       | 314                                       |
| Withholdings   | 294,419                           | 205,060                               | 310,405                                   | 216,194                                   |
| Current portion of long-term debt, net<br>(Notes 2, 8 and 10)  | 898,530                           | 809,490                               | 947,317                                   | 853,442                                   |
| Current portion of subscription deposits<br>(Note 9)   | 15,455                            | 14,875                                | 16,294                                    | 15,683                                    |
| Advanced receipts and other  | 20,091                            | 17,230                                | 21,181                                    | 18,165                                    |
| <b>Total Current Liabilities</b>   | <b>2,925,064</b>                  | <b>2,747,268</b>                      | <b>3,083,884</b>                          | <b>2,896,434</b>                          |
| <b>LONG-TERM LIABILITIES:</b>  |                                   |                                       |   |   |
| Bonds payable, net (Notes 2 and 8)   | 2,292,738                         | 2,314,208                             | 2,417,225                                 | 2,439,861                                 |
| Long-term borrowings (Note 8)  | 200,000                           |                                       | 210,859                                   |   |
| Subscription deposits (Note 9)   | 22,359                            | 23,770                                | 23,573                                    | 25,061                                    |
| Long-term payables other, net of present<br>value discount of ₩49,051 million as of<br>June 30, 2006 and ₩58,413 million as of<br>December 31, 2005 (Note 2) | 510,949                           | 591,587                               | 538,692                                   | 623,708                                   |
| Obligations under capital lease (Notes 2<br>and 10)  | 5,061                             | 10,204                                | 5,336                                     | 10,758                                    |
| Accrued severance indemnities, net (Note<br>2)   | 18,556                            | 64,029                                | 19,564                                    | 67,506                                    |
| Non-current deferred income tax liabilities,<br>net (Notes 2 and 16)   | 402,916                           | 409,715                               | 424,793                                   | 431,961                                   |
| Long-term currency swap (Notes 2 and 22)   | 115,249                           | 73,450                                | 121,507                                   | 77,438                                    |
| Long-term interest rate swap (Notes 2 and<br>22)   | 802                               |                                       | 845                                       |   |
| Guarantee deposits received and other<br>(Note 20)   | 28,880                            | 29,565                                | 30,448                                    | 31,170                                    |



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|  |              |              |               |               |
|--|--------------|--------------|---------------|---------------|
| Total Long-term Liabilities  | 3,597,510    | 3,516,528    | 3,792,842     | 3,707,463     |
| Total Liabilities  | 6,522,574    | 6,263,796    | 6,876,726     | 6,603,897     |
| STOCKHOLDERS EQUITY :  |              |              |               |               |
| Capital stock (Notes 1 and 12)   | 44,639       | 44,639       | 47,063        | 47,063        |
| Capital surplus (Notes 2, 12 and 16)   | 2,963,880    | 2,966,198    | 3,124,808     | 3,127,251     |
| Retained earnings (Note 13):   |              |              |               |               |
| Appropriated   | 6,679,235    | 5,470,701    | 7,041,892     | 5,767,740     |
| Before appropriations  | 712,210      | 1,799,160    | 750,880       | 1,896,848     |
| Capital adjustments:   |              |              |               |               |
| Treasury stock (Note 14)   | (2,023,624)  | (2,047,105)  | (2,133,499)   | (2,158,255)   |
| Unrealized gains (losses) on valuation of long-term investment securities, net (Notes 2, 3 and 16) | 54,223       | (42,134)     | 57,167        | (44,422)      |
| Equity in capital adjustments of affiliates, net (Notes 2, 4 and 16)                               | 64,105       | 77,119       | 67,586        | 81,306        |
| Loss on valuation of currency swap, net (Notes 2, 16 and 22)                                       | (26,505)     | (14,178)     | (27,944)      | (14,948)      |
| Loss on valuation of interest rate swap, net (Notes 2, 16 and 22)                                  | (582)        |              | (614)         |               |
| Stock options (Notes 2,15 and 20)  | 3,246        | 3,480        | 3,422         | 3,669         |
| Total Stockholders Equity  | 8,470,827    | 8,257,880    | 8,930,761     | 8,706,252     |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY  | ₩ 14,993,401 | ₩ 14,521,676 | \$ 15,807,487 | \$ 15,310,149 |

See accompanying notes to non-consolidated financial statements.

**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

|  | Korean won                              |                          |                            |                          | Translation into U.S. dollars (Note 2)   |                          |                            |                          |
|--|---|--------------------------|----------------------------|--------------------------|--|--------------------------|----------------------------|--------------------------|
|  | 2006                                    |                          | 2005                       |                          | 2006                                     |                          | 2005                       |                          |
|  | Three months ended June 30              | Six months ended June 30 | Three months ended June 30 | Six months ended June 30 | Three months ended June 30               | Six months ended June 30 | Three months ended June 30 | Six months ended June 30 |
|  | (In millions except for per share data) |                          |                            |                          | (In thousands except for per share data) |                          |                            |                          |
| OPERATING REVENUE<br>(Notes 2 and 20)                | ₩ 2,638,332                             | ₩ 5,178,646              | ₩ 2,527,150                | ₩ 4,939,086              | \$ 2,781,584                             | \$ 5,459,827             | \$ 2,664,365               | \$ 5,207,260             |
| OPERATING EXPENSES<br>(Notes 2 and 20)               |   |                          |                            |                          |  |                          |                            |                          |
| Labor cost (Note 20)                                 | (60,908)                                | (219,830)                | (61,887)                   | (197,572)                | (64,215)                                 | (231,766)                | (65,247)                   | (208,299)                |
| Commissions paid                                     | (875,244)                               | (1,591,529)              | (715,927)                  | (1,429,763)              | (922,766)                                | (1,677,943)              | (754,799)                  | (1,507,394)              |
| Depreciation and amortization (Notes 2, 6, 7 and 10) | (344,596)                               | (673,524)                | (359,805)                  | (701,053)                | (363,306)                                | (710,094)                | (379,341)                  | (739,118)                |
| Network interconnection                              | (268,891)                               | (504,338)                | (240,446)                  | (458,353)                | (283,491)                                | (531,722)                | (253,501)                  | (483,240)                |
| Leased line  | (98,868)                                | (197,611)                | (95,190)                   | (192,057)                | (104,236)                                | (208,341)                | (100,358)                  | (202,485)                |
| Advertising  | (80,176)                                | (137,662)                | (66,033)                   | (122,353)                | (84,529)                                 | (145,137)                | (69,618)                   | (128,996)                |
| Research and development (Note 2)                    | (48,925)                                | (101,755)                | (46,480)                   | (97,464)                 | (51,581)                                 | (107,280)                | (49,004)                   | (102,756)                |
| Rent   | (46,052)                                | (93,640)                 | (43,347)                   | (87,083)                 | (48,552)                                 | (98,724)                 | (45,701)                   | (91,811)                 |
| Frequency usage                                      | (39,910)                                | (78,310)                 | (38,814)                   | (77,733)                 | (42,077)                                 | (82,562)                 | (40,921)                   | (81,954)                 |
| Repair   | (35,508)                                | (62,941)                 | (28,286)                   | (46,504)                 | (37,436)                                 | (66,358)                 | (29,822)                   | (49,029)                 |
| Cost of goods sold                                   | (7,987)                                 | (12,620)                 | (2,433)                    | (4,355)                  | (8,421)                                  | (13,305)                 | (2,565)                    | (4,591)                  |
| Other  | (111,978)                               | (217,496)                | (115,112)                  | (196,944)                | (118,060)                                | (229,305)                | (121,363)                  | (207,638)                |
| Sub-total  | (2,019,043)                             | (3,891,256)              | (1,813,760)                | (3,611,234)              | (2,128,670)                              | (4,102,537)              | (1,912,240)                | (3,807,311)              |
| OPERATING INCOME                                     | 619,289                                 | 1,287,390                | 713,390                    | 1,327,852                | 652,914                                  | 1,357,290                | 752,125                    | 1,399,949                |

|                   |        |         |        |        |        |         |        |         |
|-------------------|--------|---------|--------|--------|--------|---------|--------|---------|
| OTHER             |        |         |        |        |        |         |        |         |
| INCOME:           |        |         |        |        |        |         |        |         |
| Interest income   |        |         |        |        |        |         |        |         |
| (Note 3)          | 17,263 | 36,358  | 11,969 | 23,309 | 18,200 | 38,332  | 12,619 | 24,575  |
| Dividends         | 369    | 15,376  | 227    | 16,430 | 389    | 16,211  | 239    | 17,322  |
| Commissions       |        |         |        |        |        |         |        |         |
| (Note 20)         | 7,379  | 17,959  | 8,998  | 16,074 | 7,780  | 18,934  | 9,487  | 16,947  |
| Equity in         |        |         |        |        |        |         |        |         |
| earnings of       |        |         |        |        |        |         |        |         |
| affiliates (Notes |        |         |        |        |        |         |        |         |
| 2 and 4)          | 16,999 | 33,416  | 11,720 | 18,167 | 17,922 | 35,230  | 12,356 | 19,153  |
| Foreign           |        |         |        |        |        |         |        |         |
| exchange and      |        |         |        |        |        |         |        |         |
| translation       |        |         |        |        |        |         |        |         |
| gains (Note 2)    | 1,375  | 2,044   | 246    | 613    | 1,450  | 2,155   | 259    | 646     |
| Reversal of       |        |         |        |        |        |         |        |         |
| allowance for     |        |         |        |        |        |         |        |         |
| doubtful          |        |         |        |        |        |         |        |         |
| accounts          | 202    | 34      | 680    | 892    | 213    | 36      | 717    | 940     |
| Gain on           |        |         |        |        |        |         |        |         |
| disposal of       |        |         |        |        |        |         |        |         |
| investment        |        |         |        |        |        |         |        |         |
| assets            | 690    | 2,469   |        | 957    | 727    | 2,603   |        | 1,009   |
| Gain on           |        |         |        |        |        |         |        |         |
| disposal of       |        |         |        |        |        |         |        |         |
| property and      |        |         |        |        |        |         |        |         |
| equipment         | 532    | 754     | 515    | 604    | 561    | 795     | 543    | 637     |
| Gain on           |        |         |        |        |        |         |        |         |
| transactions and  |        |         |        |        |        |         |        |         |
| valuation of      |        |         |        |        |        |         |        |         |
| currency swap     |        |         |        |        |        |         |        |         |
| (Notes 2 and      |        |         |        |        |        |         |        |         |
| 22)               |        |         | 3,040  | 2,645  |        |         | 3,205  | 2,789   |
| Other             | 7,609  | 22,244  | 6,789  | 19,652 | 8,022  | 23,452  | 7,158  | 20,719  |
|                   | 52,418 | 130,654 | 44,184 | 99,343 | 55,264 | 137,748 | 46,583 | 104,737 |

(Continued)

**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

|   | Korean won                                 |                                |                                     |                                | Translation into U.S. dollars (Note 2)   |                                   |                                     |                                   |
|---|--|--------------------------------|-------------------------------------|--------------------------------|--|-----------------------------------|-------------------------------------|-----------------------------------|
|   | 2006                                       |                                | 2005                                |                                | 2006                                     |                                   | 2005                                |                                   |
|   | Three<br>months<br>ended<br>June 30        | Six months<br>ended June<br>30 | Three<br>months<br>ended<br>June 30 | Six months<br>ended June<br>30 | Three<br>months<br>ended<br>June 30      | Six<br>months<br>ended<br>June 30 | Three<br>months<br>ended<br>June 30 | Six<br>months<br>ended<br>June 30 |
|   | (In millions except for per<br>share data) |                                |                                     |                                | (In thousands except for per share data) |                                   |                                     |                                   |
| OTHER<br>EXPENSES:  |  |                                |                                     |                                |  |                                   |                                     |                                   |
| Interest and<br>discounts   | (59,007)                                   | (116,790)                      | (65,623)                            | (131,932)                      | (62,211)                                 | (123,131)                         | (69,186)                            | (139,095)                         |
| Donations   | (4,836)                                    | (21,519)                       | (1,854)                             | (17,718)                       | (5,099)                                  | (22,687)                          | (1,955)                             | (18,680)                          |
| Foreign<br>exchange and<br>translation<br>losses (Note<br>2)                        | (560)                                      | (1,440)                        | (161)                               | (814)                          | (590)                                    | (1,518)                           | (170)                               | (858)                             |
| Loss on<br>transactions<br>and valuation<br>of currency<br>swap (Notes<br>2 and 22) | (3,828)                                    | (9,125)                        |                                     |                                | (4,036)                                  | (9,620)                           |                                     |                                   |
| Equity in<br>losses of<br>affiliates<br>(Notes 2 and<br>4)                          | (32,089)                                   | (56,292)                       | (17,554)                            | (37,198)                       | (33,831)                                 | (59,348)                          | (18,507)                            | (39,218)                          |
| Loss on<br>disposal of<br>investment<br>assets                                      | (1,917)                                    | (2,705)                        | (15)                                | (62)                           | (2,021)                                  | (2,852)                           | (16)                                | (65)                              |
| Loss on<br>disposal of<br>property,<br>equipment<br>and<br>intangible<br>assets     | (12,807)                                   | (13,634)                       | (1,594)                             | (3,484)                        | (13,502)                                 | (14,374)                          | (1,681)                             | (3,673)                           |
| Special<br>severance<br>indemnities<br>(Note 2)                                     | (3,426)                                    | (144,021)                      |                                     |                                | (3,612)                                  | (151,841)                         |                                     |                                   |
| Other   | (26,853)                                   | (47,816)                       | (20,078)                            | (38,087)                       | (28,311)                                 | (50,414)                          | (21,168)                            | (40,156)                          |

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|  |           |           |           |           |            |            |            |            |
|--|-----------|-----------|-----------|-----------|------------|------------|------------|------------|
| Sub-total  | (145,323) | (413,342) | (106,879) | (229,295) | (153,213)  | (435,785)  | (112,683)  | (241,745)  |
| ORDINARY<br>INCOME   | 526,384   | 1,004,702 | 650,695   | 1,197,900 | 554,965    | 1,059,253  | 686,025    | 1,262,941  |
| INCOME<br>BEFORE<br>INCOME<br>TAX  | 526,384   | 1,004,702 | 650,695   | 1,197,900 | 554,965    | 1,059,253  | 686,025    | 1,262,941  |
| PROVISION<br>FOR<br>INCOME<br>TAX (Notes<br>2 and 16)  | (153,046) | (294,204) | (183,585) | (362,372) | (161,356)  | (310,178)  | (193,553)  | (382,047)  |
| NET<br>INCOME  | ₩ 373,338 | ₩ 710,498 | ₩ 467,110 | ₩ 835,528 | \$ 393,609 | \$ 749,075 | \$ 492,472 | \$ 880,894 |
| NET<br>INCOME<br>PER SHARE<br>(In Korean<br>won and U.S.<br>dollars)<br>(Note 17)            | ₩ 5,068   | ₩ 9,648   | ₩ 6,345   | ₩ 11,350  | \$ 5,343   | \$ 10,172  | \$ 6,690   | \$ 11,966  |
| DILUTED<br>NET<br>INCOME<br>PER SHARE<br>(In Korean<br>won and U.S.<br>dollars)<br>(Note 17) | ₩ 4,996   | ₩ 9,511   | ₩ 6,243   | ₩ 11,175  | \$ 5,267   | \$ 10,027  | \$ 6,582   | \$ 11,782  |

See accompanying notes to non-consolidated financial statements.

**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

|   | Korean won   |  |  |  | Translation into U.S. dollars (Note 2)                |   |   |   |
|---|--|--|--|--|---|---|---|---|
|   | 2006   |  | 2005   |  | 2006  |   | 2005  |   |
|   | Three<br>months<br>ended<br>June 30<br>(in millions) | Six<br>months<br>ended<br>June 30<br>(in millions) | Three<br>months<br>ended<br>June 30<br>(in millions) | Six<br>months<br>ended<br>June 30<br>(in millions) | Three<br>months<br>ended<br>June 30<br>(in thousands) | Six<br>months<br>ended<br>June 30<br>(in thousands) | Three<br>months<br>ended<br>June 30<br>(in thousands) | Six<br>months<br>ended<br>June 30<br>(in thousands) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                  |  |  |  |  |   |   |   |   |
| Net income  | ₩ 373,338  | ₩ 710,498  | ₩ 467,110  | ₩ 835,528  | \$ 393,609  | \$ 749,075  | \$ 492,472  | \$ 880,894  |
| Expenses not involving cash payments:                         |  |  |  |  |   |   |   |   |
| Provision for severance indemnities                           | 6,870  | 26,844   | 7,528  | 18,574   | 7,243   | 28,302  | 7,937   | 19,582  |
| Depreciation and amortization                                 | 378,068  | 739,214  | 389,946  | 759,528  | 398,596   | 779,351   | 411,119   | 800,768   |
| Allowance for doubtful accounts                               | 9,323  | 29,616   | 20,293   | 35,339   | 9,829   | 31,224  | 21,395  | 37,258  |
| Foreign translation loss                                      | 75   | 525  |  | 153  | 79  | 554   |   | 161   |
| Loss on transactions and valuation of currency swap           | 3,828  | 9,125  |  |  | 4,036   | 9,620   |   |   |
| Equity in losses of affiliates                                | 32,089   | 56,292   | 17,554   | 37,198   | 33,831  | 59,348  | 18,507  | 39,218  |
| Loss on disposal of investment assets                         | 1,917  | 2,705  | 15   | 62   | 2,021   | 2,852   | 16  | 65  |
| Loss on disposal of property, equipment and intangible assets | 12,807   | 13,634   | 1,594  | 3,484  | 13,502  | 14,374  | 1,681   | 3,673   |

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|   |          |          |          |          |          |          |          |          |
|---|----------|----------|----------|----------|----------|----------|----------|----------|
| Amortization of discounts on bonds and other        | 12,369   | 24,430   | 12,519   | 24,967   | 13,041   | 25,756   | 13,197   | 26,323   |
| Sub-total   | 457,346  | 902,385  | 449,449  | 879,305  | 482,178  | 951,381  | 473,852  | 927,048  |
| Income not involving cash receipts:                 |          |          |          |          |          |          |          |          |
| Foreign translation gain                            | (98)     | (219)    | (36)     | (93)     | (103)    | (231)    | (38)     | (98)     |
| Reversal of allowance for doubtful accounts         | (202)    | (34)     | (680)    | (892)    | (213)    | (36)     | (717)    | (940)    |
| Equity in earnings of affiliates                    | (16,999) | (33,416) | (11,720) | (18,167) | (17,922) | (35,230) | (12,356) | (19,153) |
| Gain on disposal of investment assets               | (690)    | (2,469)  |          | (957)    | (727)    | (2,603)  |          | (1,009)  |
| Gain on disposal of property and equipment          | (532)    | (754)    | (515)    | (604)    | (561)    | (795)    | (543)    | (637)    |
| Gain on transactions and valuation of currency swap |          |          | (3,040)  | (2,645)  |          |          | (3,205)  | (2,789)  |
| Other   | (686)    | (1,533)  |          |          | (724)    | (1,616)  |          |          |
| Sub-total   | (19,207) | (38,425) | (15,991) | (23,358) | (20,250) | (40,511) | (16,859) | (24,626) |

(Continued)

**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

|  | Korean won                          |                                |                                     |                                | Translation into U.S. dollars (Note 2) |                                |                                     |                                |
|--|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|--|--------------------------------|-------------------------------------|--------------------------------|
|  | 2006                                |                                | 2005                                |                                | 2006                                   |                                | 2005                                |                                |
|  | Three<br>months<br>ended<br>June 30 | Six months<br>ended June<br>30 | Three<br>months<br>ended<br>June 30 | Six months<br>ended June<br>30 | Three<br>months<br>ended<br>June 30    | Six months<br>ended June<br>30 | Three<br>months<br>ended June<br>30 | Six months<br>ended June<br>30 |
|  | (in millions)                       |                                | (in millions)                       |                                | (in thousands)                         |                                | (in thousands)                      |                                |
| Changes in assets and liabilities related to operating activities: |                                     |                                |                                     |                                |  |                                |                                     |                                |
| Accounts receivable trade  | 11,803                              | 70,904                         | (61,614)                            | (52,694)                       | 12,444                                 | 74,754                         | (64,959)                            | (55,555)                       |
| Accounts receivable other  | (109,134)                           | 22,090                         | 4,248                               | 39,967                         | (115,060)                              | 23,289                         | 4,479                               | 42,137                         |
| Inventories  | (3,009)                             | (1,481)                        | (876)                               | (518)                          | (3,172)                                | (1,561)                        | (924)                               | (546)                          |
| Prepaid expenses   | (5,874)                             | 28,971                         | 6,859                               | 2,644                          | (6,193)                                | 30,544                         | 7,231                               | 2,788                          |
| Advanced payments and other  | 1,842                               | 9,388                          | (2,685)                             | (22,968)                       | 1,942                                  | 9,898                          | (2,831)                             | (24,215)                       |
| Accounts payable   | 69,192                              | (56,348)                       | 27,971                              | (416,209)                      | 72,949                                 | (59,407)                       | 29,490                              | (438,808)                      |
| Income tax payable   | (60,283)                            | (45,957)                       | 19,662                              | 63,434                         | (63,556)                               | (48,452)                       | 20,730                              | 66,878                         |
| Accrued expenses   | 87,045                              | 93,907                         | 72,935                              | 56,631                         | 91,771                                 | 99,006                         | 76,895                              | 59,706                         |
| Withholdings   | (22,113)                            | 89,358                         | (5,671)                             | 60,242                         | (23,314)                               | 94,210                         | (5,979)                             | 63,513                         |
| Current portion of subscription deposits                           | 275                                 | 579                            | 373                                 | 831                            | 290                                    | 610                            | 393                                 | 876                            |
| Advanced receipts and other  | 650                                 | 2,945                          | 16,897                              | 11,247                         | 685                                    | 3,105                          | 17,814                              | 11,858                         |
| Deferred income taxes  | (2,741)                             | (35,609)                       | 3,415                               | 20,374                         | (2,890)                                | (37,542)                       | 3,600                               | 21,480                         |
| Severance indemnity payments                                       | (8,774)                             | (257,120)                      | (10,606)                            | (14,535)                       | (9,250)                                | (271,081)                      | (11,182)                            | (15,324)                       |
|  | 5,378                               | 183,645                        | 4,919                               | 7,616                          | 5,670                                  | 193,616                        | 5,186                               | 8,030                          |



|   |          |           |         |           |          |           |           |           |
|---|----------|-----------|---------|-----------|----------|-----------|-----------|-----------|
| Deposits for<br>group<br>severance<br>indemnities<br>and other<br>deposits<br>Dividends<br>received from<br>affiliate | 328      | 1,318     |         | 600       | 346      | 1,390     |           | 633       |
| Sub-total   | (35,415) | 106,590   | 75,827  | (243,338) | (37,338) | 112,379   | 79,943    | (256,549) |
| Net Cash<br>Provided by<br>Operating<br>Activities  | 776,062  | 1,681,048 | 976,395 | 1,448,137 | 818,199  | 1,772,324 | 1,029,408 | 1,526,767 |

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**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

|  | Korean won                 |                          |                            |                          | Translation into U.S. dollars (Note 2) |                          |                            |                          |
|--|----------------------------|--------------------------|----------------------------|--------------------------|--|--------------------------|----------------------------|--------------------------|
|  | 2006                       |                          | 2005                       |                          | 2006                                   |                          | 2005                       |                          |
|  | Three months ended June 30 | Six months ended June 30 | Three months ended June 30 | Six months ended June 30 | Three months ended June 30             | Six months ended June 30 | Three months ended June 30 | Six months ended June 30 |
|  | (in millions)              |                          | (in millions)              |                          | (in thousands)                         |                          | (in thousands)             |                          |
| CASH FLOWS FROM INVESTING ACTIVITIES :   |                            |                          |                            |                          |  |                          |                            |                          |
| Cash inflows from investing activities :                                       |                            |                          |                            |                          |  |                          |                            |                          |
| Withdrawal of short-term financial instruments                                 | ₩                          | ₩                        | ₩                          | ₩                        | \$                                     | \$                       | \$                         | \$                       |
| Disposal of trading securities   | 294                        |                          | 125,025                    |                          | 310                                    |                          | 131,813                    |                          |
| Decrease in current portion of long-term investment securities                 |                            |                          |                            | 3,600                    |  |                          |                            | 3,795                    |
| Collection of short-term loans   | 19,066                     | 58,708                   | 16,489                     | 31,486                   | 20,101                                 | 61,896                   | 17,384                     | 33,196                   |
| Proceeds from sales of long-term investment securities                         | 108,519                    | 113,745                  | 28                         | 1,714                    | 114,411                                | 119,921                  | 30                         | 1,807                    |
| Proceeds from sales of equity securities accounted for using the equity method | 5,079                      | 5,079                    | 2,971                      | 117,827                  | 5,355                                  | 5,355                    | 3,132                      | 124,225                  |
|  | 5,721                      | 20,299                   | 2,971                      | 117,827                  | 6,032                                  | 21,401                   | 3,132                      | 124,225                  |

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|   |           |           |          |           |           |           |          |           |
|---|-----------|-----------|----------|-----------|-----------|-----------|----------|-----------|
| Decrease in<br>guarantee<br>deposits  |           |           |          |           |           |           |          |           |
| Decrease in<br>other<br>non-current<br>assets   | 2,175     | 8,775     | 6,168    | 16,214    | 2,293     | 9,251     | 6,503    | 17,094    |
| Proceeds from<br>disposal of<br>property and<br>equipment                             | 982       | 1,814     | 17,988   | 18,460    | 1,035     | 1,912     | 18,965   | 19,462    |
| Proceeds from<br>disposal of<br>intangible<br>assets                                  | 52        | 56        | 52       | 53        | 55        | 59        | 55       | 56        |
| Sub-total   | 141,888   | 208,476   | 240,920  | 189,354   | 149,592   | 219,795   | 254,001  | 199,635   |
| Cash outflows<br>from<br>investing<br>activities :                                    |           |           |          |           |           |           |          |           |
| Acquisition of<br>short-term<br>financial<br>instruments                              | (172,302) | (110,703) |          | (17,603)  | (181,657) | (116,714) |          | (18,559)  |
| Acquisition of<br>trading<br>securities   |           | (177,973) |          | (24,946)  |           | (187,636) |          | (26,300)  |
| Extension of<br>short-term<br>loans   | (13,493)  | (51,920)  | (17,057) | (43,964)  | (14,226)  | (54,739)  | (17,983) | (46,351)  |
| Acquisition of<br>long-term<br>investment<br>securities                               | (294)     | (3,050)   | (12,376) | (12,615)  | (310)     | (3,216)   | (13,048) | (13,300)  |
| Acquisition of<br>equity<br>securities<br>accounted for<br>using the<br>equity method |           | (145,888) | (9,266)  | (107,144) |           | (153,809) | (9,769)  | (112,962) |
| Extension of<br>long-term<br>loans  | (1,805)   | (2,985)   | (1,376)  | (1,545)   | (1,903)   | (3,147)   | (1,451)  | (1,629)   |
| Increase in<br>guarantee<br>deposits and<br>other                                     | (23,937)  | (92,339)  | (21,210) | (41,232)  | (25,237)  | (97,353)  | (22,362) | (43,471)  |

|  |           |             |           |           |           |             |           |           |
|--|-----------|-------------|-----------|-----------|-----------|-------------|-----------|-----------|
| non-current<br>assets                          |           |             |           |           |           |             |           |           |
| Acquisition of<br>property and<br>equipment    | (345,026) | (431,132)   | (271,976) | (365,267) | (363,760) | (454,541)   | (286,743) | (385,100) |
| Acquisition of<br>intangible<br>assets         | (4,077)   | (5,650)     | (4,475)   | (124,020) | (4,298)   | (5,957)     | (4,718)   | (130,754) |
| Sub-total                                      | (560,934) | (1,021,640) | (337,736) | (738,336) | (591,391) | (1,077,112) | (356,074) | (778,426) |
| Net Cash<br>Used in<br>Investing<br>Activities | (419,046) | (813,164)   | (96,816)  | (548,982) | (441,799) | (857,317)   | (102,073) | (578,791) |

(Continued)

**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

|   | Korean won                 |                          |                            |                          | Translation into U.S. dollars (Note 2) |                          |                            |                          |         |
|---|----------------------------|--------------------------|----------------------------|--------------------------|--|--------------------------|----------------------------|--------------------------|---------|
|   | 2006                       |                          | 2005                       |                          | 2006                                   |                          | 2005                       |                          |         |
|   | Three months ended June 30 | Six months ended June 30 | Three months ended June 30 | Six months ended June 30 | Three months ended June 30             | Six months ended June 30 | Three months ended June 30 | Six months ended June 30 |         |
|   | (in millions)              |                          | (in millions)              |                          | (in thousands)                         |                          | (in thousands)             |                          |         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES :</b>     |                            |                          |                            |                          |  |                          |                            |                          |         |
| Cash inflows from financing activities :          |                            |                          |                            |                          |  |                          |                            |                          |         |
| Issuance of bonds                                 | ₩                          | ₩                        | ₩                          | ₩                        | 193,683                                | \$                       | \$                         | \$                       | 204,199 |
| Proceeds from short-term borrowings               |                            |                          | 300,000                    | 100,000                  |  |                          | 316,289                    | 105,430                  |         |
| Proceeds from long-term borrowings                | 200,000                    | 200,000                  |                            |                          | 210,859                                | 210,859                  |                            |                          |         |
| Increase in guarantee deposits received and other | 570                        | 1,175                    | 6,961                      | 20,550                   | 601                                    | 1,239                    | 7,339                      | 21,666                   |         |
| <b>Sub-total</b>                                  | <b>200,570</b>             | <b>201,175</b>           | <b>306,961</b>             | <b>314,233</b>           | <b>211,460</b>                         | <b>212,098</b>           | <b>323,628</b>             | <b>331,295</b>           |         |
| <br>Cash outflows from financing activities :     |                            |                          |                            |                          |  |                          |                            |                          |         |
| Repayment of current portion of long-term debt    |                            |                          |                            |                          |  |                          |                            |                          |         |
|   | (3,350)                    | (7,489)                  | (500,000)                  | (500,000)                | (3,532)                                | (7,896)                  | (527,148)                  | (527,148)                |         |
| Payment of dividends                              |                            | (588,936)                | (684,518)                  | (684,529)                |  | (620,913)                | (721,685)                  | (721,696)                |         |
| Decrease in subscription deposits                 | (687)                      | (1,411)                  | (4,371)                    | (5,738)                  | (724)                                  | (1,488)                  | (4,608)                    | (6,050)                  |         |
| Decrease in guarantee deposits and other          | (837)                      | (1,862)                  | (6,468)                    | (16,577)                 | (882)                                  | (1,962)                  | (6,819)                    | (17,477)                 |         |

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|  |           |           |             |             |            |            |             |             |
|--|-----------|-----------|-------------|-------------|------------|------------|-------------|-------------|
| Sub-total  | (4,874)   | (599,698) | (1,195,357) | (1,206,844) | (5,138)    | (632,259)  | (1,260,260) | (1,272,371) |
| Net Provided by<br>(Cash Used) in<br>Financing<br>Activities     | 195,696   | (398,523) | (888,396)   | (892,611)   | 206,322    | (420,161)  | (936,632)   | (941,076)   |
| NET INCREASE<br>(DECREASE) IN<br>CASH AND<br>CASH<br>EQUIVALENTS | 552,712   | 469,361   | (8,817)     | 6,544       | 582,722    | 494,846    | (9,297)     | 6,900       |
| CASH AND<br>CASH<br>EQUIVALENTS<br>AT BEGINNING<br>OF THE PERIOD | 68,415    | 151,766   | 128,327     | 112,966     | 72,130     | 160,006    | 135,295     | 119,100     |
| CASH AND<br>CASH<br>EQUIVALENTS<br>AT END OF THE<br>PERIOD       | ₩ 621,127 | ₩ 621,127 | ₩ 119,510   | ₩ 119,510   | \$ 654,852 | \$ 654,852 | \$ 125,998  | \$ 126,000  |

See accompanying notes to non-consolidated financial statements.

**SK TELECOM CO., LTD.**  
**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

**1. GENERAL**

SK Telecom Co., Ltd. (the Company) was incorporated in March 1984 under the laws of the Republic of Korea to engage in providing nationwide cellular telephone communication services in the Republic of Korea. The Company mainly provides wireless telecommunications in the Republic of Korea and recently acquired foreign wireless telecommunications operations in Vietnam, Mongolia and the United States of America. The Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange (formerly Korea Stock Exchange) and the New York and London Stock Exchanges, respectively. As of June 30, 2006, the Company's total issued shares are held by the following:

|   | Number of<br>shares | Percentage of<br>total shares issued<br>(%) |
|---|---------------------|---|
| SK Group  | 18,748,522          | 22.79                                       |
| POSCO Corp.   | 2,341,569           | 2.84  |
| Institutional investors and other minority shareholders | 52,623,566          | 63.96                                       |
| Treasury stock  | 8,563,054           | 10.41                                       |
|   | 82,276,711          | 100.00                                      |

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the Republic of Korea, using the same accounting policies which were adopted in preparing the annual financial statements. Significant accounting policies followed in preparing the accompanying financial statements are summarized as follows:

## a. Basis of Presentation

The accompanying statutory financial statements have been prepared in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea (Korean GAAP). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with accounting principles generally accepted in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English with certain expanded descriptions from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

The official accounting records of the Company are maintained and expressed in Korean won, the currency of the country in which the Company is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩ 948.50 to US\$1, the Noon Buying Rate in the City of New York for cable transfers in Korean won as certified for customs purposes by the Federal Reserve Bank of New York on the last business day of the six months ended June 30, 2006. Such translations into U.S. dollars should not be construed as

representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

b. Adoptions of New Statements of Korea Accounting Standards ( SKAS )

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On January 1, 2006, the Company adopted SKAS No. 18 through No. 20, which are effective from the fiscal year beginning after December 31, 2005. Such adoption of SKASs did not have an effect on the non-consolidated financial position of the Company as of June 30, 2006 or the non-consolidated ordinary income and net income of the Company for the three months and six months ended June 30, 2006.

c. Cash Equivalents

Cash equivalents are highly liquid investments and short term financial instruments, which are readily convertible without significant transaction cost, do not have significant risk of changes in interest rates, and with original maturities of three months or less.

d. Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on the estimated collectibility of individual accounts and historical bad debt experience.

e. Inventories

Inventories, which consist mainly of replacement units for wireless telecommunication facilities and supplies for sales promotion, are stated at the lower of cost or market value, with cost determined using the moving average method. The Company maintains perpetual inventory systems, which are adjusted to physical inventory counts performed at fiscal year end. When the market value of inventories is less than the acquisition cost, the carrying amount is reduced to the market value and any difference is charged to current operations as operating expenses. There was no such loss for the three months and six months ended June 30, 2006 and 2005.

f. Securities (Excluding securities accounted for using the equity method of accounting)

Debt and equity securities are initially recorded at their acquisition costs (fair value of considerations paid) including incidental cost incurred in connection with acquisition of the related securities and classified into trading, available-for-sale and held-to-maturity securities depending on the acquisition purpose and nature .

Trading securities are stated at fair value with gains or losses on valuation reflected in current operations.

Securities classified as available-for-sale are reported at fair value. Unrealized gains or losses on valuation of available-for-sale securities are included in capital adjustments and the unrealized gains or losses are reflected in net income when the securities are sold or if impairment is other than temporary. Equity securities are stated at acquisition cost if fair value cannot be reliably measured. If the declines in the fair value of individual available-for-sale securities below their acquisition or amortized cost are other than temporary and there is objective evidence of impairment, write-downs of the individual securities are recorded to reduce the carrying value to their fair value. The related write-downs are recorded in current operations as a loss on impairment of investment securities.

Held-to-maturity securities are presented at acquisition cost after premiums or discounts are amortized or accreted, respectively. The Company recognizes write-downs resulting from other-than-temporary declines in the fair value below its book value on the balance sheet date if there is objective evidence of impairment. The related write-downs are recorded in current operations as a loss on impairment of investment securities.

Trading securities are presented in the current asset section of the balance sheet, and available-for-sales and held-to-maturity securities are presented in the current asset section of the balance sheet if their maturities are within one year; otherwise such securities are recorded in the non-current section of the balance sheet.

g. Equity Securities Accounted for Using the Equity Method

Investment securities of affiliated companies, in which the Company has the ability to exercise significant

influence, are carried using the equity method of accounting, whereby the Company's initial investment is recorded at cost and the carrying value is subsequently increased or decreased to reflect the Company's portion of stockholders' equity of the investee. Differences between the purchase cost and the acquisition date net asset fair value of the investee are amortized over 5 to 20 years using the straight-line method. When applying the equity method of accounting, unrealized inter-company gains and losses are eliminated (See Note 4). In addition, the Company provides for additional losses for those investments accounted for using the equity method that are reduced to zero to the extent that the Company has other investment assets related to the equity method investees.

When the Company's share of equity interest in the equity method investees increases as a result of capital transactions of the investees with (or without) consideration, the increase in the Company's proportionate shares in the investees are treated as goodwill or negative goodwill and when the Company's share of equity interest in the equity method investees decreases as a result of capital transactions of the investees with (or without) consideration, the decrease in the Company's proportionate shares in the investees are accounted for as gain or loss on disposal. However, if equity method investees are subsidiaries, such differences in the Company's proportionate shares in the investees are accounted for as capital adjustments of affiliates in the Company's shareholders' equity.

In translating the foreign currency forward statements of the Company's investees operating overseas, the Company applies (a) the foreign exchange rate at the balance sheet date to the investee's balance sheet items (except historical rates applied for shareholders' equity), and (b) the average foreign exchange rate for the current period for income statements items. After translating the balance sheet and income statements items as noted above, the Company's portion of the amount after deducting the translated total liabilities from translated total assets and equity is recorded as capital adjustment of affiliates in the Company's shareholders' equity.

#### h. Property and Equipment

Property and equipment are stated at cost. Major renewals and betterments, which prolong the useful life or enhance the value of assets, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the declining balance method (except for buildings and structures acquired on or after January 1, 1995 which are depreciated using the straight-line method) over the estimated useful lives (4~30 years) of the related assets (See Note 6).

Interest expense and other financing charges for borrowings related to the manufacture or construction of property and equipment are charged to current operations as incurred.

#### i. Intangible Assets

Intangible assets are recorded at cost, less amortization computed using the straight-line method over 5 to 20 years. The amortization for the six months ended June 30, 2006 and 2005 were ₩171,260 million and ₩163,574 million, respectively, and for the three months ended June 30, 2006 and 2005 were ₩86,768 million and ₩82,520 million, respectively.

With its application for a license to provide IMT 2000 service, the Company has a commitment to pay ₩1,300,000 million to the Ministry of Information Communication (MIC) → ₩650,000 million was paid in March 2001 by SK IMT Co., Ltd. (a former subsidiary of the Company), which was merged into the Company on May 1, 2003, and the remainder is required to be paid over 10 years with an annual interest rate equal to the

3-year-maturity government bond rate minus 0.75% (4.13% as of June 30, 2006). The

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future payment obligations are ₩90,000 million (related present value discount: ₩1,855 million) in 2007, ₩110,000 million in 2008, ₩130,000 million in 2009, ₩150,000 million in 2010 and ₩170,000 million in 2011. On December 4, 2001, SK IMT Co., Ltd. received the IMT 2000 license from MIC, and recorded the total license cost as an intangible asset. As a result of the merger with SK IMT Co., Ltd., the Company acquired such IMT license of ₩1,259,253 million and assumed the related long-term payable with a principal amount of ₩650,000 million on May 1, 2003 (the date of merger). Amortization of the IMT license commenced when the Company started its commercial IMT 2000 service in December 2003, using the straight-line method over the estimated useful life of the IMT license which expires in December 2016. As of June 30, 2006, the present value discount related to the current portion and long-term portion of payments to be made to MIC totaled ₩1,855 million and ₩ 49,051 million, respectively.

j. Convertible Bonds

The proceeds from issuance of convertible bonds are allocated between the conversion rights and the debt issued; and the portion allocable to the conversion rights is accounted for as capital surplus with a corresponding conversion right adjustment deducted from the related bonds. Such conversion right adjustment is amortized to interest expense using the effective interest rate method over the redemption period of the convertible bonds. The portion allocable to the conversion rights is measured by deducting the present value of the debt at time of issuance from the gross proceeds from issuance of convertible bonds, with the present value of the debt being computed by discounting the expected future cash flows (including call premium, if any) using the effective interest rate applied to ordinary or straight debt of the Company at the issue date.

k. Discounts on Bonds

Discounts on bonds are amortized to interest expense using the effective interest rate method over the redemption period of the bonds.

l. Valuation of Long-term Payables

Long-term payables resulting from long-term installment transactions are stated at the present value of the expected future cash flows. Imputed interest amounts are recorded in present value discount accounts, which are deducted directly from the related nominal payable balances. Such imputed interest is included in operations using the effective interest rate method over the redemption period.

m. Provisions, Contingent Liabilities and Contingent Assets

The Company recognizes a provision when i) it has a present obligation as a result of a past event, ii) it is probable that a disbursement of economic resources will be required to settle the obligation, and iii) a reliable estimate can be made of the amount of the obligation (See Note 21).

The Company does not recognize the following contingent obligations as liabilities:

- Possible obligations related to past events, for which the existence of a liability can only be confirmed upon occurrence of uncertain future event or events outside the control of the Company.
- Present obligations arising out of past events or transactions, for which i) a disbursement of economic resources to fulfill such obligations is not probable or ii) a disbursement of economic resources is probable, but the related amount cannot be reasonably estimated.

In addition, the Company does not recognize potential assets related to past events or transactions, for which the existence of an asset or future benefit can only be confirmed upon occurrence of uncertain future event or events outside the control of the Company.

n. Accrued Severance Indemnities

In accordance with the Company's policy, all employees with more than one year of service are entitled to receive severance indemnities upon termination of their employment based on length of service and rate of pay. Accruals for severance indemnities are recorded to approximate the amount required to be paid if all employees were to terminate at the balance sheet date.

The Company has deposits with insurance companies to fund the portion of the employees' severance indemnities which is in excess of the tax deductible amount allowed under the Corporate Income Tax Law, in order to take advantage of the additional tax deductibility for such funding. Such deposits with outside insurance companies, where the beneficiaries are the Company's employees, totaling ~~₩~~ 3,458 million and ~~₩~~ 187,103 million as of June 30, 2006 and December 31, 2005, respectively, are deducted from accrued severance indemnities.

In accordance with the Korean National Pension Fund Law, the Company transferred a portion of its accrued severance indemnities to the National Pension Fund through March 1999. Such transfers, amounting to ~~₩~~ 55 million and ~~₩~~ 5,172 million as of June 30, 2006 and December 31, 2005, respectively, are deducted from accrued severance indemnities.

Actual payment of severance indemnities amounted to ~~₩~~ 257,120 million and ~~₩~~ 14,535 million for the six months ended June 30, 2006 and 2005, respectively, and ~~₩~~ 8,774 million and ~~₩~~ 10,606 million for the three months ended June 30, 2006 and 2005, respectively.

Effective March 31, 2006, the Company changed its policy for the severance indemnities applicable to those employees who joined the Company before or on December 31, 2002 from cumulative method, where employees are entitled to get paid more than one month of salary each year depending on the length of service, to simple multiplier method, where employees are paid one month of salary each year regardless of their service period in accordance with the resolution of the Company's joint labor-management conference held on March 16, 2006. As a result of such policy change, the Company has decided to distribute early settlements to those eligible employees on their accumulated severance indemnities as of March 31, 2006 on a mandatory basis. In addition, the Company paid the additional bonuses of ~~₩~~ 125,890 million for those employees who received the mandatory distribution for their early settlement as compensation for those employees. The Company recorded such compensation costs as special severance indemnities in other expenses for the six months ended June 30, 2006. In addition, the Company executed the early retirement program and the related special bonus of ~~₩~~ 18,131 million were paid to eligible employees. Such costs are recorded as other expenses for the six months ended June 30, 2006.

o. Accounting for Employee Stock Option Compensation Plan



The Company adopted the fair value based method of accounting for its employee stock option compensation plan (See Note 15). Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period. For stock options, fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, expected dividends and the current risk-free interest rate for the expected life of the option. However, as permitted under Korean GAAP, the Company excludes the volatility factor in estimating the value of its stock options granted before December 31, 2003, which results in measurement at minimum value. The total compensation cost of an option estimated at the grant date is not subsequently adjusted for changes in the price of the underlying stock or its volatility, the actual life of the option, dividends on the stock, or the risk-free interest rate. In addition, recognized compensation costs related to stock options expired due to such stock options not being exercised within the exercisable period are transferred to other capital surplus from capital adjustments (See Note 12).

p. Accounting for Leases

Lease agreements that include a bargain purchase option, result in the transfer of ownership at the end of the lease term, have a lease term equal to 75% or more of the estimated economic life of the leased property or where the present value of minimum lease payments equals or exceeds 90% of the fair value of the leased property, are accounted for as capital leases. All other leases are accounted for as operating leases.

Assets and liabilities related to capital leases are recorded as property and equipment and obligations under capital leases, respectively, and the related interest is calculated using the effective interest rate method and charged to other expenses. For operating leases, the future minimum lease payments are expensed ratably over the lease term while contingent rentals are expensed as incurred (See Note 10).

q. Research and Development Costs

The Company charges substantially all research and development costs to expense as incurred. The Company incurred internal research and development costs of ₩ 101,755 million and ₩ 97,464 million for the six months ended June 30, 2006 and 2005, respectively, and ₩ 48,925 million and ₩ 46,480 million for the three months ended June 30, 2006 and 2005, respectively. In addition, external research and development costs were ₩ 33,348 million and ₩ 34,263 million for the six months ended June 30, 2006 and 2005, respectively, and ₩ 16,306 million and ₩ 17,096 million for the three months ended June 30, 2006 and 2005, respectively.

r. Accounting for Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded in Korean won based on the prevailing rate of exchange at the dates of transactions. Monetary assets and liabilities denominated in foreign currency are translated into Korean won at the Base Rates announced by Seoul Money Brokerage Services, Ltd. on the balance sheet date, which were ₩ 960.30 and ₩ 1,013.00 to US\$1.00 at June 30, 2006 and December 31, 2005, respectively. The resulting gains or losses arising from the translation or settlement of such assets and liabilities are included in current operations.

s. Derivative Instruments



The Company records rights and obligations arising from derivative instruments as assets and liabilities, which are stated at fair value. The gains and losses that result from the change in the fair value of derivative instruments are reported in current earnings. However, for derivative instruments designated as hedging the exposure of variable cash flows, the effective portions of the gains or losses on the hedging instruments are recorded as a separate component of stockholders' equity and credited/charged to operations at the time the hedged transactions affect earnings, and the ineffective portions of the gains or losses are credited/charged immediately to operations.

t. Revenue Recognitions

Operating revenue is recognized when cellular telephone communication services are provided.

u. Income Tax

Income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax assets and liabilities.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognized for all taxable temporary differences with some exceptions and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Effective January 1, 2005, deferred income tax assets and liabilities, which were presented on the balance sheet as a single non-current net amount through 2004, are classified into current and non-current based on the classification of related assets or liabilities for financial reporting purposes (See Note 16).

v. Reclassifications

Certain reclassifications have been made in prior periods' financial statements to conform to classifications used in the current period. Such reclassifications did not have an effect on the previously reported financial position as of December 31, 2005 and ordinary income and net income for the three months and six months ended June 30, 2005.

**3. INVESTMENT SECURITIES****a. Trading Securities**

Trading securities as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|                          | Acquisition<br>cost | June 30, 2006<br>Fair value | June 30, 2006<br>Carrying<br>amount | December 31,<br>2005<br>Fair value and<br>carrying amount |
|--------------------------|---------------------|-----------------------------|-------------------------------------|---|
| Beneficiary certificates | ₩923,333            | ₩923,333                    | ₩ 923,333                           | ₩ 745,360   |

**b. Long-term Investment Securities**

Long-term investment securities as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|                                      | June 30, 2006 | December 31,<br>2005 |
|--------------------------------------|---------------|----------------------|
| Available-for-sale equity securities | ₩ 847,973     | ₩ 907,069            |
| Available-for-sale debt securities   | 190,604       | 296,264              |
| Total                                | 1,038,577     | 1,203,333            |
| Less: current portion                | (64)          |                      |
| Long-term portion                    | ₩ 1,038,513   | ₩ 1,203,333          |

**b-(1). Available-for-sale Equity Securities**

Available-for-sale equity securities as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|   | Number of<br>shares at | Percentage<br>(%) at | Acquisition<br>cost at | Fair value at    | Carrying amount  |                         |
|---|------------------------|----------------------|------------------------|------------------|------------------|-------------------------|
|   | June 30,<br>2006       | June<br>30,<br>2006  | June 30,<br>2006       | June 30,<br>2006 | June 30,<br>2006 | December<br>31,<br>2005 |
| <b>(Investments in listed companies)</b>                              |                        |                      |                        |                  |                  |                         |
| Digital Chosunilbo Co., Ltd.  | 2,890,630              | 7.8                  | ₩ 5,781                | ₩ 3,816          | ₩ 3,816          | ₩ 5,796                 |
| hanarotelecom incorporated.   | 11,045,000             | 4.8                  | 121,677                | 61,079           | 61,079           | 56,440                  |
| KRTnet Corporation (Formerly Korea Radio Wave Basestation Management) | 234,150                | 4.4                  | 1,171                  | 2,353            | 2,353            | 2,646                   |
| POSCO   | 2,481,310              | 2.8                  | 332,662                | 631,493          | 631,493          | 501,225                 |

|  |        |     |         |         |         |         |
|--|--------|-----|---------|---------|---------|---------|
| Comas Interactive<br>Co., Ltd.<br>(Formerly INNOTG<br>Co., Ltd.) | 59,473 | 0.4 | 1,695   | 73      | 73      | 83      |
| Sub-total  |        |     | 462,986 | 698,814 | 698,814 | 566,190 |

|  | Number of | Percentage | Acquisition |               | Fair               | Carrying amount |           |
|--|-----------|------------|-------------|---------------|--------------------|-----------------|-----------|
|  | shares at | (%) at     | cost at     |               | value              | December        |           |
|  | June 30,  | June       | June 30,    |               | at                 | June 30,        | 31,       |
|  | 2006      | 30,        | 2006        |               | June               | 2006            | 2005      |
|  |           | 2006       |             |               | 30,                |                 |           |
|  |           |            |             |               | 2006               |                 |           |
| <b>(Investments in non-listed companies)</b> |           |            |             |               |                    |                 |           |
| LG Powercomm Co., Ltd.                       |           |            |             |               |                    |                 |           |
| (Formerly Powercomm Co., Ltd.)               | 7,500,000 | 5.0        | ₩ 240,243   |               | 77,130<br>(Note a) | ₩ 77,130        | ₩ 77,130  |
| Japan MBCO                                   | 54,000    | 7.3        | 27,332      | (Note b)      |                    | 27,332          | 27,332    |
| Eonex Technologies Inc.                      | 144,000   | 12.6       | 3,600       | (Note b)      |                    | 4,593           | 4,593     |
| The Korea Economic Daily                     | 2,585,069 | 13.8       | 13,964      | (Note b)      |                    | 13,964          | 13,964    |
| Others                                       |           |            | 119,183     | (Notes b & c) |                    | 21,944          | 22,825    |
| Sub-total                                    |           |            | 404,322     |               |                    | 144,963         | 145,844   |
| <b>(Investments in funds)</b>                |           |            |             |               |                    |                 |           |
| Korea IT Fund                                |           |            |             | (Note d)      |                    |                 | 190,000   |
| Others                                       |           |            | 4,196       | (Note b)      |                    | 4,196           | 5,035     |
| Sub-total                                    |           |            | 4,196       |               |                    | 4,196           | 195,035   |
| Total  |           |            | ₩ 871,504   |               |                    | ₩ 847,973       | ₩ 907,069 |

(Note a) The Company recorded its investments in common stock of LG Powercomm Co., Ltd. at its fair value, which was estimated by an outside professional valuation company using

the present value of expected future cash flows and the unrealized loss on valuation of investments amounting to ~~₩~~118,257 million (net of tax effect of ~~₩~~44,856 million) as of December 31, 2005 was recorded as a capital adjustment. Based on the opinion of the outside professional valuation company, there was no significant change in LG Powercomm Co., Ltd.'s operation and financial results, which have an effect on the fair value of the common stocks, for the six months ended June 30, 2006. No additional unrealized loss or recovery on valuation of such investments was recorded accordingly.

(Note b) As a reasonable estimate of fair value could not be made, the investment is stated at acquisition cost. The investment in common stock of

Eonex Technologies Inc. was reclassified to available-for-sale securities from equity securities accounted for using the equity method during 2003, as the Company's ownership in such investees decreased to less than 20% and the Company no longer exercises significant influence. Such securities were transferred to available-for-sale securities at the carrying amount valued using the equity method of accounting prior to the reclassification.

(Note c) Due to the impairment of the Company's investments in common stock of TeleMerc.com, the Company recorded impairment loss on such investments of ₩1,793 million for the 4<sup>th</sup> quarter of 2005.

(Note d) The investment in Korea IT Fund was reclassified to equity securities

accounted for  
using the equity  
method during the  
six months ended  
June 30, 2006 as  
the Company has  
the ability to  
exercise  
significant  
influence on the  
investee.

**b-(2). Available-for-sale Debt Securities**

Available-for-sale debt securities as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|   | Maturity       | Acquisition<br>cost<br>of June 30,<br>2006 | Carrying<br>amount<br>June 30,<br>2006 | December<br>31,<br>2005 |
|---|----------------|--|--|-------------------------|
| Public bonds  | (Note a)       | ₩ 1,883                                    | ₩ 1,883                                | ₩ 1,590                 |
| Currency stabilization bonds                            | (Note b)       | 188,657                                    | 188,721                                | 294,674                 |
| Convertible bonds of Real Telecom Co., Ltd.<br>(Note c) | March,<br>2007 | 10,656                                     |  |                         |
| Total   |                | 201,196                                    | 190,604                                | 296,264                 |
| Less: current portion                                   |                | (64)                                       | (64)                                   |                         |
| Long-term available-for-sale debt securities            |                | ₩ 201,132                                  | ₩ 190,540                              | ₩ 296,264               |

The interest income incurred from available-for-sale debt securities for the six months ended June 30, 2006 and 2005 and for the three months ended June 30, 2006 and 2005 were ₩6,886 million and ₩ 630 million, ₩3,289 million and ₩16 million, respectively.

(Note a) The maturities of public bonds as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

| Maturity          | June 30,<br>2006 | December 31,<br>2005 |
|-------------------|------------------|----------------------|
| Within one year   | ₩ 64             | ₩                    |
| Within five years | 1,818            | 1,229                |
| Within ten years  | 1                | 361                  |
|                   | ₩ 1,883          | ₩ 1,590              |

(Note b) The maturities of currency stabilization



bonds as of  
June 30, 2006  
and  
December 31,  
2005 are as  
follows (In  
millions of  
Korean won):

| Maturity          | June 30,<br>2006 | December 31,<br>2005 |
|-------------------|------------------|----------------------|
| Within five years | ₩ 188,721        | ₩ 294,674            |

(Note c) The convertible bonds of Real Telecom Corp. with a principal amount of ₩10,656 million can be converted into 371,018 shares of common stock of Real Telecom Corp. at ₩28,721 per share during the period from September 29, 2004 to March 28, 2007. Due to the impairment of such bonds, the Company recorded an impairment loss of ₩10,656 million prior to December 31, 2004.

**b-(3). Changes in Unrealized Gains (Losses) on Investments in Common Stock**

The changes in unrealized gains (losses) on investments in common stock for the six months ended June 30, 2006 and 2005 are as follows (In millions of Korean won):

|  | For the six months ended June 30, 2006 |                         |  |                   |
|--|--|-------------------------|--|-------------------|
|  | Beginning<br>balance                   | Increase/<br>(decrease) | Transferred<br>to<br>realized<br>gain (loss) | Ending<br>balance |
| Available-for-sales equity securities: |  |                         |  |                   |
| Digital Chosunilbo Co., Ltd.           | ₩ 14                                   | ₩ ( 1,980)              | ₩  | ₩ ( 1,966)        |
| hanarotelecom incorporated             | (65,237)                               | 4,639                   |  | (60,598)          |
| KRTnet Corporation                     | 1,475                                  | (293)                   |  | 1,182             |
| POSCO                                  | 168,563                                | 130,269                 |  | 298,832           |
| Comas Interactive Co., Ltd.            | (1,611)                                | (10)                    |  | (1,621)           |
| LG Powercomm Co., Ltd.                 | (163,113)                              |                         |  | (163,113)         |
| Eonex Technologies Inc.                | 2,011                                  |                         |  | 2,011             |
| Currency stabilization bonds           | (218)                                  | 895                     | (614)  | 63                |
| Sub-total                              | (58,116)                               | 133,520                 | (614)  | 74,790            |
| Less: tax effect                       | 15,982                                 | (36,718)                | 169  | (20,567)          |
| Total                                  | ₩ (42,134)                             | ₩ 96,802                | ₩ (445)                                      | ₩ 54,223          |

|  | For the six months ended June 30, 2005 |                         |  |                   |
|--|--|-------------------------|--|-------------------|
|  | Beginning<br>balance                   | Increase/<br>(decrease) | Transferred<br>to<br>realized<br>gain (loss) | Ending<br>balance |
| Available-for-sales equity securities: |  |                         |  |                   |
| Digital Chosunilbo Co., Ltd.           | ₩ ( 3,758)                             | ₩ 1,431                 | ₩  | ₩ ( 2,327)        |
| hanarotelecom incorporated             | (50,657)                               | (15,795)                |  | (66,452)          |
| KRTnet Corporation                     | 1,007                                  | 5                       |  | 1,012             |
| POSCO                                  | 131,343                                | (11,166)                |  | 120,177           |
| Comas Interactive Co., Ltd.            | (1,543)                                | (58)                    |  | (1,601)           |
| SINJISOFT Corporation                  | 460                                    |                         | (460)  |                   |
| Cowon System, Inc.                     |  | (243)                   |  | (243)             |
| LG Powercomm Co., Ltd.                 | (168,678)                              |                         |  | (168,678)         |
| Eonex Technologies Inc.                | 2,011                                  |                         |  | 2,011             |
| WiderThan Co., Ltd.                    | (27)                                   |                         |  | (27)              |
| Sub-total                              | (89,842)                               | (25,826)                | (460)  | (116,128)         |
| Less: tax effect                       |  | 31,935                  |  | 31,935            |

|       |            |         |         |            |
|-------|------------|---------|---------|------------|
| Total | ₩ (89,842) | ₩ 6,109 | ₩ (460) | ₩ (84,193) |
|-------|------------|---------|---------|------------|

**4. EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD**

Equity securities accounted for using the equity method of accounting as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|                                       | June 30, 2006    |                          |                  |                  | Carrying Amount |                   |
|---------------------------------------|------------------|--------------------------|------------------|------------------|-----------------|-------------------|
|                                       | Number of shares | Ownership percentage (%) | Acquisition cost | Net asset value  | June 30, 2006   | December 31, 2005 |
| Pantech Co., Ltd.                     | 25,570,306       | 22.7                     | ₩ 26,309         | ₩ 52,651         | ₩ 53,153        | ₩ 55,634          |
| SK Capital Co., Ltd.                  | 10,000,000       | 100.0                    | 50,000           | 37,506           | 37,506          | 37,501            |
| SK Communications Co., Ltd.           | 7,844,454        | 86.5                     | 175,441          | 150,188          | 169,973         | 158,170           |
| SK Telink Co., Ltd.                   | 943,997          | 90.8                     | 5,296            | 78,342           | 78,342          | 70,863            |
| SK C&C Co., Ltd.                      | 300,000          | 30.0                     | 19,071           | 202,087          | 206,754         | 198,251           |
| SK Wyverns Baseball Club Co., Ltd.    | 199,997          | 100.0                    | 1,000            |                  |                 |                   |
| STIC Ventures Co., Ltd.               | 1,600,000        | 21.9                     | 8,000            | 8,379            | 8,379           | 8,308             |
| Paxnet Co., Ltd.                      | 5,590,452        | 66.7                     | 26,563           | 10,992           | 28,693          | 27,372            |
| Global Credit & Information Co., Ltd. | 300,000          | 50.0                     | 2,410            | 2,648            | 3,256           | 3,276             |
| TU Media Corp.                        | 12,922,266       | 29.6                     | 64,611           | 18,426           | 19,314          | 32,393            |
| Aircross Co., Ltd.                    | 600,000          | 38.1                     | 300              | 966              | 966             | 970               |
| WiderThan Co., Ltd.                   | 2,000,000        | 10.1                     | 1,000            | 11,503 (Note a)  | 11,503          | 12,827            |
| IHQ, Inc.                             | 8,000,000        | 21.3                     | 14,440           | 8,940            | 14,401          | 13,935            |
| Seoul Records, Inc.                   | 9,582,321        | 60.0                     | 27,874           | 23,388           | 26,651          | 27,242            |
| Harex Info Tech, Inc.                 | 225,000          | 21.2                     | 3,375            | 1,128            | 2,355           | 2,568             |
| SK Mobile                             |                  | 42.5                     | 10,322           | 6,618 (Note b)   | 9,650           |                   |
| SLD Telecom PTE. Ltd.                 | 180,476,700      | 73.3                     | 191,273          | 132,720          | 133,115         | 55,358            |
| Skytel Co., Ltd.                      | 1,756,400        | 28.6                     | 2,159            | 4,852            | 4,852           | 4,872             |
| SK China Company Ltd.                 | 28,160           | 20.7                     | 3,195            | 1,571            | 485             | 483               |
| SK Telecom China Co., Ltd.            | 6,150,000        | 100.0                    | 7,340            | 6,637            | 6,637           | 6,927             |
| ULand Company Limited.                | 14,100,100       | 70.1                     | 17,511           | 5,777            | 10,407          | 12,564            |
| SK Telecom USA Holdings, Inc.         | 1,000            | 100.0                    | 161,494          | 108,268 (Note c) | 108,268         | 103,751           |
| SK Telecom International, Inc.        | 1,099            | 100.0                    | 17,467           | 24,920           | 24,920          | 25,957            |
| SK USA, Inc.                          | 49               | 49.0                     | 3,184            | 3,352            | 3,352           | 3,353             |
| Korea IT Fund                         |                  | 63.3                     | 190,000          | 197,652 (Note d) | 197,652         |                   |
| Centurion IT Investment Association   |                  | 37.5                     | 3,000            | 3,076            | 3,076           | 3,635             |
| 1st Music Investment Fund of SK-PVC   |                  | 69.3                     | 6,925            | 6,995            | 6,995           | 6,990             |

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|                                     |      |                    |          |                    |                  |
|-------------------------------------|------|--------------------|----------|--------------------|------------------|
| 2nd Music Investment Fund of SK-PVC | 79.3 | 7,925              | 7,966    | 7,966              | 7,966            |
| SK-KTB Music Investment Fund        | 74.3 | 14,850             | 15,183   | 15,183             | 14,999           |
| IMM Cinema Fund                     | 48.4 | 12,000             | 11,852   | 11,852             | 11,884           |
| SKT-HP Ventures, LLC.               |      |                    |          |                    | 5,272            |
| Other investments in affiliates     |      | 13,083             | (Note e) | 12,583             | 12,583           |
| <b>Total</b>                        |      | <b>₩ 1,087,418</b> |          | <b>₩ 1,218,239</b> | <b>₩ 925,904</b> |

(Note a) Effective January 1, 2005, the investment in common stock of WiderThan Co., Ltd. was reclassified to equity securities accounted for using the equity method. Although the Company's ownership in WiderThan Co., Ltd. is less than 20%, the Company exercises significant influences on the selection of directors and the investee has significant transactions with the Company.

(Note b) On March 31 2006, the Company acquired 42.5% interests of common stock of SK Mobile from Pantech Co., Ltd. and others.

(Note c) In 2005, the Company incorporated SK Telecom USA Holdings, Inc. with an investment of US\$122 million in order to invest in and manage Helio, Inc., a joint venture company in the United States of America, which

was established in order to provide wireless telecommunication services in the United States of America. In addition, the Company invested an additional US\$ 39.5 million in SK USA Holdings, Inc. during the first half of 2006 (See Note 23).

(Note d) The investment in Korea IT Fund was reclassified to equity securities accounted for using the equity method during the first half of 2006 as the Company has ability to exercise significant influence on the investee.

(Note e) As allowed under Korean GAAP, investments in equity securities of SK Telecom Europe Limited and others were not accounted for using the equity method of accounting, as changes in the Company's portion of stockholders equity of such investees were not expected to be material.

Details of the changes in investments in affiliates accounted for using the equity method for the three months and six months ended June 30, 2006 and 2005 are as follows (In millions of Korean won):

|                                       |                 | For the six months ended June 30, 2006 |             |            |             |          |            |          |
|---------------------------------------|-----------------|--|-------------|------------|-------------|----------|------------|----------|
|                                       |                 | Beginning                              | Acquisition | Equity in  | Equity in   | Dividend | Other      | Ending   |
|                                       |                 | balance                                |             | earnings   | surplus     | received | increase   | balance  |
|                                       |                 |  |             | (losses)   | and capital |          | (decrease) |          |
|                                       |                 |  |             |            | adjustments |          |            |          |
| Pantech Co., Ltd.                     | (Note a)        | ₩ 55,634                               | ₩           | ₩ ( 2,381) | ₩ ( 100)    | ₩        | ₩          | ₩ 53,153 |
| SK Capital Co., Ltd.                  | (Note b)        | 37,501                                 |             | 5          |             |          |            | 37,506   |
| SK Communications Co., Ltd            |                 | 158,170                                |             | 9,831      | 1,972       |          |            | 169,973  |
| SK Telink Co., Ltd.                   | (Note a)        | 70,863                                 |             | 7,442      | 37          |          |            | 78,342   |
| SK C&C Co., Ltd.                      | (Notes a and c) | 198,251                                |             | 11,643     | (2,150)     | (990)    |            | 206,754  |
| SK Wyverns Baseball Club Co., Ltd.    | (Note b)        |  |             |            |             |          |            |          |
| STIC Ventures Co., Ltd.               | (Note b)        | 8,308                                  |             | 71         |             |          |            | 8,379    |
| Paxnet Co., Ltd.                      |                 | 27,372                                 |             | 1,218      | 103         |          |            | 28,693   |
| Global Credit & Information Co., Ltd. | (Note b)        | 3,276                                  |             | (20)       |             |          |            | 3,256    |
| TU Media Corp.                        | (Note a)        | 32,393                                 |             | (13,079)   |             |          |            | 19,314   |
| Aircross Co., Ltd.                    | (Note b)        | 970                                    |             | (4)        |             |          |            | 966      |
| WiderThan Co., Ltd.                   | (Notes b and d) | 12,827                                 |             | (500)      | (54)        |          | (770)      | 11,503   |
| IHQ, Inc.                             | (Notes a and d) | 13,935                                 |             | (504)      | 417         |          | 553        | 14,401   |
| Seoul Records, Inc.                   | (Note a)        | 27,242                                 |             | (591)      |             |          |            | 26,651   |
| Harex Info Tech, Inc.                 | (Note b)        | 2,568                                  |             | (213)      |             |          |            | 2,355    |
| SK Mobile                             | (Note a)        |  | 10,322      | (578)      | (94)        |          |            | 9,650    |



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|   |                 |                 |                |                 |                 |                |                |                   |
|---|-----------------|-----------------|----------------|-----------------|-----------------|----------------|----------------|-------------------|
| SLD Telecom PTE Ltd.                              | (Note a)        | 55,358          | 97,286         | (6,893)         | (12,636)        |                |                | 133,115           |
|   | (Notes b and c) |                 |                |                 |                 |                |                |                   |
| Skytel Co., Ltd.                                  | (Note c)        | 4,872           |                | 111             | 197             | (328)          |                | 4,852             |
| SK China Company Ltd.                             | (Note b)        | 483             |                | 2               |                 |                |                | 485               |
| SK Telecom China Co., Ltd.                        | (Note a)        | 6,927           |                | (269)           | (21)            |                |                | 6,637             |
| ULand Company Limited.                            | (Note a)        | 12,564          |                | (3,196)         | 1,039           |                |                | 10,407            |
| SK Telecom USA Holdings, inc.                     | (Note a)        | 103,751         | 38,280         | (27,341)        | (6,422)         |                |                | 108,268           |
| SK Telecom International, Inc.                    | (Note a)        | 25,957          |                | 240             | (1,277)         |                |                | 24,920            |
| SK USA, Inc.                                      | (Note b)        | 3,353           |                | (75)            | 74              |                |                | 3,352             |
|   | (Notes a and e) |                 |                |                 |                 |                |                |                   |
| Korea IT Fund Centurion IT Investment Association | (Note b)        |                 |                | 2,646           | 5,006           |                | 190,000        | 197,652           |
| 1st Music Investment Fund of SK-PVC               | (Note b)        | 3,635           |                | (616)           | 57              |                |                | 3,076             |
| 2nd Music Investment Fund of SK-PVC               | (Note b)        | 6,990           |                | 5               |                 |                |                | 6,995             |
| SK-KTB Music Investment Fund                      | (Note a)        | 7,966           |                |                 |                 |                |                | 7,966             |
| IMM Cinema Fund                                   | (Note a)        | 14,999          |                | 184             |                 |                |                | 15,183            |
| SKT-HP Ventures, LLC                              | (Note f)        | 11,884          |                | (32)            |                 |                |                | 11,852            |
|   |                 | 5,272           |                | 18              |                 |                | (5,290)        |                   |
| <b>Total</b>                                      |                 | <b>₩913,321</b> | <b>145,888</b> | <b>(22,876)</b> | <b>(13,852)</b> | <b>(1,318)</b> | <b>184,493</b> | <b>₩1,205,656</b> |
| Less: three months ended March 31, 2006           |                 |                 | (145,888)      | (7,786)         | 46,993          | (990)          | (597)          |                   |
| Three months ended June 30, 2006                  |                 | ₩               | ₩(15,090)      | ₩(60,845)       | ₩(328)          | ₩185,090       |                |                   |



(Note a) Investments were recorded using the equity method of accounting based on unaudited and unreviewed financial statements as of and for the six months ended June 30, 2006. In order to verify the reliability of such unaudited and unreviewed financial statements, the Company has performed the following procedures and found no significant errors:

- i) obtained the signature from the chief executive officer of the equity method investee asserting that the unaudited and unreviewed financial statements are accurate
- ii) checked whether the major transactions identified by the Company, including public disclosures, were appropriately reflected in the unaudited and unreviewed financial statements
- iii) performed an analytical review on the unaudited and unreviewed financial

statements

(Note b) Investments in equity securities are carried using the equity method of accounting based on the financial statements as of December 31, 2005 as information as of June 30, 2006 was not available and the change in the Company's portion of stockholders' equity of the investee for the six months ended June 30, 2006 was immaterial.

(Note c) The Company received dividends from SK C&C Co., Ltd. and Skytel co., Ltd. and the corresponding amount was deducted from the carrying amount of equity method securities.

(Note d) Other increase (decrease) in investments in equity securities of WiderThan Co., Ltd. and IHQ, Inc. represent gains (losses) on disposal of investments in equity securities, which have resulted from the dilution of the Company's ownership as a result of investees sale of their unissued shares to third parties.

(Note e) Other increase in investments in Korea IT Fund is the carrying amount transferred from available-for-sale equity securities.

(Note f) Investment was fully liquidated due to dissolution of SKT-HP Ventures, LLC during the first half of 2006.

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For the six months ended June 30, 2005

|   | Beginning<br>balance | Acquisition | Equity in<br>earnings<br>(losses) | Equity in<br>capital<br>surplus<br>and capital<br>adjustments | Dividend<br>received | Other<br>increase<br>(decrease) | Ending<br>balance |
|---|----------------------|-------------|-----------------------------------|---|----------------------|---------------------------------|-------------------|
| SK Teletch Co.,<br>Ltd.                     | ₩ 190,896            | ₩           | (₩ 19,327)                        | ₩ (19)  | ₩                    | ₩                               | ₩ 171,550         |
| SK Capital Co.,<br>Ltd.                     | (Note<br>a) 34,891   |             |                                   |   |                      |                                 | 34,891            |
| SK<br>Communications<br>Co., Ltd            | 143,096              |             | 2,582                             | (733)   |                      |                                 | 144,945           |
| SK Telink Co.,<br>Ltd.                      | 56,182               |             | 7,187                             | 32  |                      |                                 | 63,401            |
| SK C&C Co., Ltd.                            | 201,353              |             | 6,804                             | (8,293)   | (600)                |                                 | 199,264           |
| SK Wyverns<br>Baseball Club Co.,<br>Ltd.    | (Note<br>a)          |             | (3,904)                           |   |                      |                                 |                   |
| STIC Ventures<br>Co., Ltd.                  | (Note<br>a) 7,321    |             | (285)                             | 441   |                      |                                 | 7,477             |
| Paxnet Co., Ltd.                            | 25,244               |             | 1,001                             |   |                      |                                 | 26,245            |
| Global Credit &<br>Information Co.,<br>Ltd. | (Note<br>a) 3,054    |             | (21)                              |   |                      |                                 | 3,033             |
| TU Media Corp.                              | 34,607               |             | (10,259)                          |   |                      |                                 | 24,348            |
| Aircross Co., Ltd.                          | (Note<br>a) 944      |             | (4)                               |   |                      |                                 | 940               |
| IHQ, Inc.                                   |                      | 14,440      | 123                               |   |                      |                                 | 14,563            |
| SLD Telecom PTE<br>Ltd.                     | 59,804               |             | (3,072)                           | (1,097)   |                      |                                 | 55,635            |
| Skytel Co., Ltd.                            | (Note<br>a) 3,633    |             | 88                                | (8)   |                      |                                 | 3,713             |
| SK China<br>Company Ltd.                    | (Note<br>a) 803      |             | 35                                | (8)   |                      |                                 | 830               |
| SK Telecom China<br>Co., Ltd.               | (Note<br>a) 9,212    |             | 178                               | (178)   |                      |                                 | 9,212             |
| SK Telecom USA<br>Holdings, inc.            |                      | 83,438      |                                   |   |                      |                                 | 83,438            |
| SK Telecom<br>International, Inc.           | (Note<br>a) 21,995   |             | (49)                              | 4   |                      |                                 | 21,950            |
| SK USA, Inc.                                | (Note<br>a) 3,184    |             | 168                               | (296)   |                      |                                 | 3,056             |
| Centurion IT<br>Investment<br>Association   | (Note<br>a) 3,205    |             | (277)                             |   |                      |                                 | 2,928             |
| SKT-QC Wireless<br>Development Fund         | (Note<br>a) 5,145    |             | 1                                 |   |                      |                                 | 5,146             |

|   |    |           |           |            |          |       |           |
|---|----|-----------|-----------|------------|----------|-------|-----------|
| SKT-HP Ventures, (Note<br>LLC                 | a) | 5,284     |           | (3)        |          | 5,281 |           |
| Total   |    | ₩ 809,853 | 97,878    | (19,031)   | (10,158) | (600) | ₩ 881,846 |
| Less: three months<br>ended March 31,<br>2005 |    |           | 97,878    | (13,197)   | 11,039   | (600) |           |
| Three months<br>ended June 30,<br>2005        |    | ₩         | (₩ 5,834) | (₩ 21,197) | ₩        | ₩     |           |

(Note a) Investments in equity securities are carried using the equity method of accounting based on the financial statements as of December 31, 2004 as information as of June 30, 2005 was not available and the change of the Company's portion of shareholders equity of the investee for the six months ended June 30, 2005 was not expected to be material.

Details of changes in the differences between the acquisition cost and net asset value of equity method investees at the acquisition date for the three months and six months ended June 30, 2006 and 2005 are as follows (In millions of Korean won):

|   | For the six months ended June 30, 2006 |              |                |                 |
|---|--|--------------|----------------|-----------------|
|   | Beginning balance                      | Increase     | Amortization   | Ending balance  |
| Pantech Co., Ltd.                       | ₩ 793                                  | ₩            | ₩ (21)         | ₩ 772           |
| SK Communications Co., Ltd.             | 23,814                                 |              | (699)          | 23,115          |
| SK C&C Co., Ltd.                        | 4,870                                  |              | (203)          | 4,667           |
| Paxnet Co., Ltd.                        | 18,237                                 |              | (536)          | 17,701          |
| Global Credit & Information Co., Ltd.   | 628                                    |              | (21)           | 607             |
| TU Media Corp.                          | 993                                    |              | (105)          | 888             |
| IHQ, Inc.                               | 6,267                                  | (72)         | (734)          | 5,461           |
| Seoul Records, Inc.                     | 3,670                                  |              | (408)          | 3,262           |
| Harex Info Tech, Inc.                   | 1,402                                  |              | (175)          | 1,227           |
| SK Mobile                               |  | 3,192        | (159)          | 3,033           |
| SLD Telecom PTE. Ltd.                   | 406                                    |              | (11)           | 395             |
| ULand Company Limited                   | 3,628                                  | 1,132        | (129)          | 4,631           |
| <b>Total</b>                            | <b>₩ 64,708</b>                        | <b>4,252</b> | <b>(3,201)</b> | <b>₩ 65,759</b> |
| Less: three months ended March 31, 2006 |  | 4,297        | (1,433)        |                 |
| Three months ended June 30, 2006        |  | ₩ (45)       | ₩ (1,768)      |                 |

|   | For the six months ended June 30, 2005 |              |                |                 |
|---|--|--------------|----------------|-----------------|
|   | Beginning balance                      | Increase     | Amortization   | Ending balance  |
| Pantech Co., Ltd.                       | ₩ 3,287                                | ₩            | ₩ (86)         | ₩ 3,201         |
| SK Communications Co., Ltd.             | 24,622                                 |              | (220)          | 24,402          |
| SK C&C Co., Ltd.                        | 5,276                                  |              | (203)          | 5,073           |
| Paxnet Co., Ltd.                        | 19,310                                 |              | (536)          | 18,774          |
| Global Credit & Information Co., Ltd.   | 670                                    |              | (21)           | 649             |
| IHQ, Inc.                               |  | 7,401        | (93)           | 7,308           |
| SLD Telecom PTE. Ltd.                   | 428                                    |              | (11)           | 417             |
| <b>Total</b>                            | <b>₩ 53,593</b>                        | <b>7,401</b> | <b>(1,170)</b> | <b>₩ 59,824</b> |
| Less: three months ended March 31, 2005 |  | 7,401        | (527)          |                 |
| Three months ended June 30, 2005        |  | ₩            | ₩ (643)        |                 |



Details of changes in unrealized inter-company gains incurred from sales of assets for the three months and six months ended June 30, 2006 and 2005 are as follows (In millions of Korean won):

| Subsidiary                              | For the six months ended June 30, 2006 |          |          | Ending balance |
|---|--|----------|----------|----------------|
|   | Beginning balance                      | Increase | Decrease |                |
| Pantech Co., Ltd.                       | ₩                                      | ₩ 270    | ₩        | ₩ 270          |
| SK Communications Co., Ltd.             | 4,016                                  |          | (686)    | 3,330          |
| SK China Company Ltd.                   | 1,086                                  |          |          | 1,086          |
| Total                                   | ₩ 5,102                                | 270      | (686)    | ₩ 4,686        |
| Less: three months ended March 31, 2006 |  |          | (478)    |                |
| Three months ended June 30, 2006        |  | ₩ 270    | ₩ (208)  |                |

| Subsidiary                              | For the six months ended June 30, 2005 |          |          | Ending balance |
|---|--|----------|----------|----------------|
|   | Beginning balance                      | Increase | Decrease |                |
| SK Communications Co., Ltd.             | ₩                                      | ₩ 3,707  | ₩        | ₩ 3,707        |
| SK China Company Ltd.                   | 1,206                                  |          | (120)    | 1,086          |
| Total                                   | ₩ 1,206                                | 3,707    | (120)    | ₩ 4,793        |
| Less: three months ended March 31, 2005 |  |          | (120)    |                |
| Three months ended June 30, 2005        |  | ₩ 3,707  | ₩        |                |

Details of market price of the equity securities accounted for using the equity method as of June 30, 2006 are as follows (In millions of Korean won, except for market price per share):

|                     | Market price                    | Shares owned by | Market price |
|---------------------|---------------------------------|-----------------|--------------|
|                     | per share<br>(In Korean<br>won) | the Company     |              |
| Pantech Co., Ltd.   | ₩ 3,700                         | 25,570,306      | ₩94,610      |
| WiderThan Co., Ltd. | 9,881                           | 2,000,000       | 19,762       |
| IHQ, Inc.           | 7,400                           | 8,000,000       | 59,200       |
| Seoul Records, Inc. | 4,040                           | 9,582,321       | 38,713       |

The condensed financial information of the investees as of and for the six months ended June 30, 2006 is as follows (In millions of Korean won):

|                                | Total<br>assets | Total<br>liabilities | Revenue  | Net<br>income (loss) |
|--------------------------------|-----------------|----------------------|----------|----------------------|
| Pantech Co., Ltd.              | ₩1,100,178      | ₩869,724             | ₩669,992 | ₩ (9,960)            |
| SK Communications Co., Ltd.    | 241,357         | 60,384               | 86,937   | 13,860               |
| SK Telink Co., Ltd.            | 128,053         | 42,081               | 91,941   | 9,600                |
| SK C&C Co., Ltd.               | 1,615,838       | 942,213              | 443,718  | 39,606               |
| Paxnet Co., Ltd.               | 21,457          | 4,390                | 18,386   | 2,613                |
| TU Media Corp.                 | 380,126         | 317,838              | 38,010   | (43,690)             |
| IHQ, Inc.                      | 71,680          | 27,838               | 27,371   | (618)                |
| Seoul Records, Inc.            | 45,128          | 6,148                | 11,626   | (283)                |
| SK Mobile                      | 22,363          | 6,791                | 550      | (1,937)              |
| SLD Telecom PTE Ltd.           | 207,775         | 26,760               |          | (8,290)              |
| SK Telecom China Co., Ltd.     | 9,826           | 3,189                | 7,400    | 21                   |
| ULand Company Limited          | 9,961           | 1,726                | 3,556    | (3,869)              |
| SK Telecom USA Holdings, Inc.  | 148,349         | 40,081               |          | (26,716)             |
| SK Telecom International, Inc. | 26,483          | 1,563                | 6,183    | 742                  |
| Korea IT Fund                  | 312,082         |                      | 8,708    | 4,177                |
| SKT-KTB Music Investment Fund  | 20,521          | 53                   | 323      | 254                  |
| IMM Cinema Fund                | 24,494          |                      | 247      | (67)                 |

## 5. LOANS TO EMPLOYEES

Short-term and long-term loans to employees as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|   | Short-term | June 30, 2006<br>Long-term | Total   | December<br>31,<br>2005 |
|---|------------|----------------------------|---------|-------------------------|
| Loans to employees stock ownership<br>association | ₩ 2,366    | ₩ 7,085                    | ₩ 9,451 | ₩ 14,586                |
| Loans to employees for housing and other          | 78         | 241                        | 319     | 433                     |
| Total   | ₩ 2,444    | ₩ 7,326                    | ₩ 9,770 | ₩ 15,019                |

## 6. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|                          | Useful<br>lives<br><br>(years) | June 30, 2006 | December 31,<br>2005 |
|--------------------------|--------------------------------|---------------|----------------------|
| Land                     |                                | ₩ 461,970     | ₩ 461,513            |
| Buildings and structures | 30,15                          | 1,478,572     | 1,477,838            |
| Machinery                | 6                              | 10,465,317    | 10,376,529           |
| Vehicles                 | 4                              | 20,546        | 20,442               |

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|                                |   |                        |                        |
|--------------------------------|---|------------------------|------------------------|
| Other                          | 4 | 957,438                | 807,534                |
| Construction in progress       |   | 342,478                | 264,309                |
|                                |   | 13,726,321             | 13,408,165             |
| Less: accumulated depreciation |   | (9,297,886)            | (8,812,282)            |
| Property and equipment, net    |   | <del>₩</del> 4,428,435 | <del>₩</del> 4,595,883 |

The standard value of land declared by the government as of June 30, 2006 and December 31, 2005 are ~~₩~~503,723 million and ~~₩~~412,829 million, respectively.

Details of change in property and equipment for the three months and six months ended June 30, 2006 and

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2005 are as follows (In millions of Korean won):

|   | For the six months ended June 30, 2006 |                |                 |                 |                  | Ending<br>balance  |
|---|--|----------------|-----------------|-----------------|------------------|--------------------|
|   | Beginning<br>balance                   | Acquisition    | Disposal        | Transfer        | Depreciation     |                    |
| Land  | ₩ 461,513                              | ₩              | (₩ 344)         | ₩ 801           | ₩                | ₩ 461,970          |
| Buildings and<br>structures                   | 1,145,497                              | 657            | (527)           | 825             | (27,697)         | 1,118,755          |
| Machinery                                     | 2,429,564                              | 492            | (633)           | 160,861         | (500,755)        | 2,089,529          |
| Vehicles                                      | 2,786                                  | 723            | (86)            |                 | (830)            | 2,593              |
| Other   | 292,214                                | 313,212        | (13,140)        | (140,504)       | (38,672)         | 413,110            |
| Construction in<br>progress                   | 264,309                                | 116,048        |                 | (37,879)        |                  | 342,478            |
| <b>Total</b>                                  | <b>₩ 4,595,883</b>                     | <b>431,132</b> | <b>(14,730)</b> | <b>(15,896)</b> | <b>(567,954)</b> | <b>₩ 4,428,435</b> |
| Less: three months<br>ended March 31,<br>2006 |  | 86,106         | (1,424)         | (4,741)         | (276,654)        |                    |
| Three months<br>ended June 30,<br>2006        |  | ₩ 345,026      | ₩ (13,306)      | ₩ (11,155)      | ₩ (291,300)      |                    |
|   | For the six months ended June 30, 2005 |                |                 |                 |                  | Ending<br>balance  |
|   | Beginning<br>balance                   | Acquisition    | Disposal        | Transfer        | Depreciation     |                    |
| Land  | ₩ 463,656                              | ₩ 718          | ₩ (477)         | ₩ 1,125         | ₩                | ₩ 465,022          |
| Buildings and<br>structures                   | 1,163,070                              | 6,351          | (782)           | 16,284          | (27,430)         | 1,157,493          |
| Machinery                                     | 2,585,118                              | 6,454          | (17,764)        | 194,793         | (529,093)        | 2,239,508          |
| Vehicles                                      | 4,030                                  | 641            | (116)           |                 | (1,058)          | 3,497              |
| Other   | 251,377                                | 208,087        | (2,050)         | (143,803)       | (38,373)         | 275,238            |
| Construction in<br>progress                   | 138,002                                | 143,016        |                 | (88,371)        |                  | 192,647            |
| <b>Total</b>                                  | <b>₩ 4,605,253</b>                     | <b>365,267</b> | <b>(21,189)</b> | <b>(19,972)</b> | <b>(595,954)</b> | <b>₩ 4,333,405</b> |
| Less: three months<br>ended March 31,<br>2005 |  | 93,291         | (2,193)         | 277             | (288,528)        |                    |
| Three months<br>ended June 30,<br>2005        |  | ₩ 271,976      | ₩ (18,996)      | (₩ 20,249)      | (₩ 307,426)      |                    |

**7. INTANGIBLE ASSETS**

Intangible assets as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|                                  | Acquisition<br>cost | June 30, 2006               |                     | Acquisition<br>cost | December 31, 2005           |                     |
|----------------------------------|---------------------|-----------------------------|---------------------|---------------------|-----------------------------|---------------------|
|                                  |                     | Accumulated<br>amortization | Carrying<br>amounts |                     | Accumulated<br>amortization | Carrying<br>amounts |
| Goodwill                         | ₩ 2,335,532         | ₩ (578,979)                 | ₩ 1,756,553         | ₩ 2,335,532         | ₩ (514,648)                 | ₩ 1,820,884         |
| Frequency use<br>rights          | 1,384,433           | (250,012)                   | 1,134,421           | 1,384,433           | (200,141)                   | 1,184,292           |
| Software<br>development<br>costs | 225,790             | (176,645)                   | 49,145              | 221,913             | (160,657)                   | 61,256              |
| Computer<br>software             | 507,064             | (248,039)                   | 259,025             | 489,807             | (210,050)                   | 279,757             |
| Other                            | 105,420             | (66,594)                    | 38,826              | 103,974             | (63,616)                    | 40,358              |
|                                  | ₩ 4,558,239         | (₩ 1,320,269)               | ₩ 3,237,970         | ₩ 4,535,659         | (₩ 1,149,112)               | ₩ 3,386,547         |

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Details of changes in intangible assets for the three months and six months ended June 30, 2006 and 2005 are as follows (In millions of Korean won):

|   | For the six months ended June 30, 2006 |              |             |               |                  | Ending balance     |
|---|--|--------------|-------------|---------------|------------------|--------------------|
|   | Beginning balance                      | Increase     | Decrease    | Transfer      | Amortization     |                    |
| Goodwill                                | ₩ 1,820,884                            | ₩            | ₩           | ₩             | ₩ (64,331)       | ₩ 1,756,553        |
| Frequency use rights                    | 1,184,292                              |              |             |               | (49,871)         | 1,134,421          |
| Software development costs              | 61,255                                 |              |             | 3,877         | (15,987)         | 49,145             |
| Computer software                       | 279,758                                | 4,236        | (1)         | 13,070        | (38,038)         | 259,025            |
| Other                                   | 40,358                                 | 1,414        | (19)        | 106           | (3,033)          | 38,826             |
| <b>Total</b>                            | <b>₩ 3,386,547</b>                     | <b>5,650</b> | <b>(20)</b> | <b>17,053</b> | <b>(171,260)</b> | <b>₩ 3,237,970</b> |
| Less: three months ended March 31, 2006 |  | 1,573        | (16)        | 5,192         | (84,492)         |                    |
| Three months ended June 30, 2006        |  | ₩ 4,077      | ₩ (4)       | ₩ 11,861      | ₩ (86,768)       |                    |

|   | For the six months ended June 30, 2005 |                |              |               |                  | Ending balance     |
|---|--|----------------|--------------|---------------|------------------|--------------------|
|   | Beginning balance                      | Increase       | Decrease     | Transfer      | Amortization     |                    |
| Goodwill                                | ₩ 1,949,546                            | ₩              | ₩            | ₩             | ₩ (64,331)       | ₩ 1,885,215        |
| Frequency use rights                    | 1,163,319                              | 117,380        |              |               | (48,204)         | 1,232,495          |
| Software development costs              | 100,579                                | 35             |              |               | (21,298)         | 79,316             |
| Computer software                       | 190,745                                | 5,643          | (3)          | 20,271        | (25,866)         | 190,790            |
| Other                                   | 44,430                                 | 962            | (200)        | 493           | (3,875)          | 41,810             |
| <b>Total</b>                            | <b>₩ 3,448,619</b>                     | <b>124,020</b> | <b>(203)</b> | <b>20,764</b> | <b>(163,574)</b> | <b>₩ 3,429,626</b> |
| Less: three months ended March 31, 2005 |  | 119,545        | (80)         | 425           | (81,054)         |                    |
| Three months ended June 30, 2005        |  | ₩ 4,475        | ₩ (123)      | ₩ 20,339      | ₩ (82,520)       |                    |

The book value as of June 30, 2006 and residual useful lives of major intangible assets are as follows (In millions of Korean won):

|          | Amount     | Description | Residual useful lives |
|----------|------------|-------------|-----------------------|
| Goodwill | ₩1,756,553 |             |                       |

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|               |           |   |                                      |
|---------------|-----------|---|--------------------------------------|
| IMT license   | 1,012,020 | Goodwill related to acquisition of<br>Shinsegi Telecomm, Inc.<br>Frequency use rights relating to<br>W-CDMA Service | 13 years and<br>9 months<br>(Note a) |
| WiBro license | 115,333   | WiBro Service   | (Note b)                             |
| DMB license   | 7,069     | DMB Service   | 10 years                             |

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(Note a) Amortization of the IMT license commenced when the Company started its commercial IMT 2000 service in December 2003, using the straight-line method over the estimated useful life (13 years) of the IMT license which expires in December 2016.

(Note b) The Company purchased the WiBro license from MIC on March 20, 2005. The license period is seven years from the purchase date. Amortization of the WiBro license commenced when the Company started its commercial WiBro services on June 30, 2006 using the straight line basis over the remaining useful life (5 years and 9 months).

## **8. BONDS PAYABLE AND LONG-TERM BORROWINGS**

### **a. Bonds payable**

Bonds payable as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won and thousands of U.S. dollars):

Annual



|  | Maturity year | interest<br>rate (%) | June 30,<br>2006 | December<br>31,<br>2005 |
|--|---------------|----------------------|------------------|-------------------------|
| Domestic general bonds                 | 2006          | 5.0 6.0              | ₩ 800,000        | ₩ 800,000               |
|  | 2007          | 5.0 6.0              | 700,000          | 700,000                 |
|  | 2008          | 5.0                  | 300,000          | 300,000                 |
|  | 2009          | 5.0                  | 300,000          | 300,000                 |
|  | 2010          | 4.0                  | 200,000          | 200,000                 |
|  | 2011          | 3.0                  | 200,000          | 200,000                 |
| Dollar denominated bonds (US\$300,000) | 2011          | 4.25                 | 288,090          | 303,900                 |
| Convertible bonds                      | 2009          |                      | 364,309          | 385,885                 |
| Total                                  |               |                      | 3,152,399        | 3,189,785               |
| Less: discounts on bonds               |               |                      | (31,348)         | (40,016)                |
| conversion right adjustments           |               |                      | (53,343)         | (65,219)                |
| Add: long-term accrued interest        |               |                      | 23,422           | 24,808                  |
| Net                                    |               |                      | 3,091,130        | 3,109,358               |
| Less: portion due within one year      |               |                      | (798,392)        | (795,150)               |
| Long-term portion                      |               |                      | ₩ 2,292,738      | ₩ 2,314,208             |

All of the above bonds will be paid in full at maturity.

On May 27, 2004, the Company issued zero coupon convertible bonds with a maturity of five years in the principal amount of US\$329,450,000 for US\$324,923,469, with an initial conversion price of ₩235,625 per share of the Company's common stock, which was greater than market value at the date of issuance. Subsequently, the initial conversion price was changed to ₩218,098 per share in accordance with anti-dilution protection. The Company may redeem their principal amount after 3 years from the issuance date if the market price exceeds 130% of the conversion price during a predetermined period. On the other hand, the bond holders may redeem their notes at 103.81% of the principal amount on May 27, 2007 (3 years from the issuance date). The conversion right may be exercised during the period from July 7, 2004 to May 13, 2009 and the number of common shares to be converted as of June 30, 2006 is 1,677,812 shares. Conversion of notes to common shares may be prohibited under the Telecommunications Law or other

legal restrictions which restrains foreign governments, individuals and entities from owning more than 49% of the Company's voting stock, if this 49% ownership limitation is violated due to the exercise of conversion rights. In this case, the Company will pay a bond holder a cash settlement determined at the average price of one day after a holder exercises its conversion right or the weighted average price for the following five business days. The Company intends to sell treasury shares held in trust by the Company that corresponds to the number of shares of common stock that would have been delivered in the absence of the 49% foreign shareholding restrictions. The Company entered into an agreement with Credit Suisse First Boston International to reduce the effect of fluctuation with respect to cash settlement payments that may be more or less than the proceeds from sales of treasury shares held in trust. Unless either previously redeemed or converted, the notes are redeemable at 106.43% of the principal amount at maturity. During the six months ended June 30, 2006, the convertible bonds with a principal amount of US\$18,420,000 were converted into 99,361 shares of treasury stock (See note 14), and the principal amount of the convertible bonds decreased from US\$329,450,000 to US\$311,030,000. In addition, the consideration for conversion right (capital surplus) decreased by ₩2,728 million (net of tax effect of ₩1,034 million) as a result of this conversion and the number of common shares to be converted decreased to 1,677,812 shares from 1,777,173 shares.

### **b. Long-term borrowings**

Long-term borrowings as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won and thousands of U.S. dollars):

|                                       | Lender       | Final maturity year | Annual interest rate (%) | June 30, 2006 | December 31, 2005 |
|---------------------------------------|--------------|---------------------|--------------------------|---------------|-------------------|
| Long-term floating rate discount bill | Shinhan Bank | 2011.6.29           | 91 days CD yield + 0.25% | 200,000       |                   |

The above borrowings are classified as long-term borrowings as the borrowings are to be rolled-over exceeding 1 year from June 30, 2006 in accordance with the loan agreement.

### **9. SUBSCRIPTION DEPOSITS**

The Company receives subscription deposits from customers of cellular services at the subscription date. The Company has no obligation to pay interest on subscription deposits but is required to return them to subscribers upon termination of the subscription contract.

Long-term subscription deposits held as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won except deposit per subscriber amounts):

| Service type | Deposit per subscriber | June 30, 2006 | December 31, 2005 |
|--------------|------------------------|---------------|-------------------|
| Cellular     | ₩ 200,000              | ₩ 22,359      | ₩ 23,770          |

The Company offers existing and new cellular subscribers the option of obtaining credit insurance from Seoul Guarantee Insurance Company ( SGIC ) in lieu of the subscription deposits. Existing subscribers who elect this option are refunded their subscription deposits. As a result, the balance of subscription deposits has been decreasing.



**10. LEASES**

The Company acquired certain computer equipment and software from SK C&C Co., Ltd. and succeeded certain capital lease agreements between SK C&C Co., Ltd. and HP Financial Service. Details of capital lease assets and liabilities acquired from SK C&C Co., Ltd. as of and for the six months ended June 30, 2006 and as of and for the year ended December 31, 2005 are as follows (In millions of Korean won):

|                          |                   | June 30, 2006 | December 31,<br>2005 |
|--------------------------|-------------------|---------------|----------------------|
| Acquisition cost         | Office equipment  | ₩ 16,096      | ₩ 16,919             |
|                          | Computer software | 7,609         | 7,625                |
|                          |                   | ₩ 23,705      | ₩ 24,544             |
| Accumulated depreciation | Office equipment  | ₩ 4,771       | ₩ 744                |
|                          | Computer software | 887           | 127                  |
|                          |                   | ₩ 5,658       | ₩ 871                |
| Carrying amounts         | Office equipment  | ₩ 11,325      | ₩ 16,175             |
|                          | Computer software | 6,722         | 7,498                |
|                          |                   | ₩ 18,047      | ₩ 23,673             |
| Depreciation expenses    | Office equipment  | ₩ 4,166       | ₩ 744                |
|                          | Computer software | 762           | 127                  |
|                          |                   | ₩ 4,928       | ₩ 871                |

The Company's minimum future lease payments as of June 30, 2006 are as follows (In millions of Korean won):

|                                   | Annual lease<br>payments | Interest | Principal |
|-----------------------------------|--------------------------|----------|-----------|
| 2006                              | ₩ 7,291                  | (₩ 441)  | ₩ 6,850   |
| 2007                              | 8,846                    | (352)    | 8,494     |
| 2008                              | 1,734                    | (24)     | 1,710     |
| Total                             | ₩ 17,871                 | (₩ 817)  | 17,054    |
| Less: portion due within one year |                          |          | (11,993)  |

Capital lease liabilities

₩ 5,061

**11. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES**

The details of monetary assets and liabilities denominated in foreign currencies (except for bonds payable denominated in foreign currencies described in Note 8) as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won, thousands of U.S. dollars, thousands of HK dollars, thousands of Japanese yen, thousands of Great Britain pounds, thousands of Singapore dollars, thousands of Swiss Franc and thousands of Euros):

|                           | June 30, 2006  |   | December 31, 2005   |  |
|---------------------------|--|---|---|--|
|                           | Foreign currencies   | Korean won equivalent                   | Foreign currencies  | Korean won equivalent                          |
| Cash and cash equivalents | US\$ 5,384   | ₩ 5,170                                 | US\$ 4,175<br>EUR 3   | ₩ 4,229<br>3                                   |
| Accounts receivable trade | US\$ 11,340<br>EUR\$ 248   | 10,890<br>302                           | US\$ 9,390<br>EUR 248   | 9,512<br>298                                   |
| Accounts receivable other | US\$ 3,464   | 3,326                                   | US\$ 3,364  | 3,408  |
| Guarantee deposits        | US\$ 9<br>JPPY 20,956  | 9<br>175                                | JPY 16,156  | 139  |
|                           |  | ₩ 19,872                                |   | ₩ 17,589                                       |
| Accounts payable          | US\$ 9,094<br>JPY 37,980<br>HK\$ 216<br>GBP 34<br>SG\$ 44<br>EUR 401 | ₩ 8,733<br>317<br>27<br>59<br>26<br>488 | US\$ 15,633<br>JPY 8,498<br>HK\$ 254<br>GBP 453<br>SG\$ 22<br>EUR 504<br>CHF 19 | ₩ 15,836<br>73<br>33<br>792<br>13<br>604<br>15 |
|                           |  | ₩ 9,650                                 |   | ₩ 17,366                                       |

**12. CAPITAL STOCK AND CAPITAL SURPLUS**

The Company's capital stock consists entirely of common stock with a par value of ₩500. The number of authorized and issued shares as of June 30, 2006 and December 31, 2005 are as follows:

|   | June 30, 2006 | December 31, 2005 |
|---|---------------|-------------------|
| Authorized shares                         | 220,000,000   | 220,000,000       |
| Issued shares                             | 82,276,711    | 82,276,711        |
| Outstanding shares, net of treasury stock | 73,713,657    | 73,614,296        |

Significant change in capital stock and capital surplus for the six months ended June 30, 2006 and for the year ended December 31, 2005 are as follows (In millions of Korean won except for share data):

|  | Number of<br>shares |  | Capital<br>stock | Capital<br>surplus |
|--|---------------------|--|------------------|--------------------|
|  | Issued              |  | ₩ 44,639         | ₩ 2,983,166        |
| At January 1, 2005   | 82,276,711          |  |                  |                    |
| Deferred tax liabilities deducted from capital surplus<br>(Note a) |                     |  |                  | (18,501)           |
| Transferred from stock options in capital adjustment<br>(Note b)   |                     |  |                  | 1,533              |
| At December 31, 2005   | 82,276,711          |  | 44,639           | 2,966,198          |
| Consideration for conversion right (Note c)                        |                     |  |                  | (2,728)            |
| Transferred from stock options in capital adjustment<br>(Note d)   |                     |  |                  | 234                |
| Gains on disposal of treasury stock (Note e)                       |                     |  |                  | 176                |
| June 30, 2006  | 82,276,711          |  | ₩ 44,639         | ₩ 2,963,880        |

(Note a) The tax effects of consideration for conversion rights, which resulted in temporary differences, were deducted directly from related components of stockholders equity, pursuant to adoption of SKAS No. 16 for the year ended December 31, 2005.

(Note b) During the year ended December 31, 2005, the exercisable period for the stock

options representing 17,800 shares, of which recognized compensation costs were ₩1,533 million, expired and the related stock options of ₩1,533 million in capital adjustments were transferred to capital surplus in accordance with Korean GAAP [See Note 2 (o)] .

(Note c) During the six months ended June 30, 2006, the convertible bonds with a face value of US\$18,420,000 were converted and the capital surplus amount (in connection with the related conversion rights) decreased by ₩2,728 million (net of tax effect of ₩1,034 million).

(Note d) During the six months ended June 30, 2006, the exercisable period for the stock options representing 43,390 shares, of which recognized compensation costs were ₩234 million, expired and the related stock



options of  
~~₩~~234 million in  
capital  
adjustments were  
transferred to  
capital surplus in  
accordance with  
Korean GAAP  
[See Note 2 (o)].

(Note e) In relation to the  
conversion of  
convertible bonds,  
99,361 shares of  
treasury stock  
were issued and  
~~₩~~176 million of  
gain on disposal  
of treasury stock  
were recorded.

**13. RETAINED EARNINGS**

Retained earnings as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|                       | June 30, 2006 | December 31,<br>2005 |
|-----------------------|---------------|----------------------|
| Appropriated          | ₩ 6,679,235   | ₩ 5,470,701          |
| Before appropriations | 712,210       | 1,799,160            |
|                       | ₩ 7,391,445   | ₩ 7,269,861          |

The details of appropriated retained earnings as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|  | June 30, 2006 | December 31,<br>2005 |
|--|---------------|----------------------|
| Legal reserve                                  | ₩ 22,320      | ₩ 22,320             |
| Reserve for improvement of financial structure | 33,000        | 33,000               |
| Reserve for loss on disposal of treasury stock | 477,182       | 477,182              |
| Reserve for research and manpower development  | 880,595       | 822,061              |
| Reserve for business expansion                 | 5,266,138     | 4,116,138            |
| Total  | ₩ 6,679,235   | ₩ 5,470,701          |

a. Legal Reserve

The Korean Commercial Code requires the Company to appropriate as a legal reserve at least 10% of cash dividends for each accounting period until the reserve equals 50% of outstanding capital stock. The legal reserve may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to capital stock.

b. Reserve for Improvement of Financial Structure

The Financial Control Regulation for listed companies in Korea requires that at least 10% of net income (net of accumulated deficit), and an amount equal to net gain (net of related income taxes, if any) on the disposal of property and equipment be appropriated as a reserve for improvement of financial structure until the ratio of stockholders' equity to total assets reaches 30%. The reserve for improvement of financial structure may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to capital stock.

c. Reserves for Loss on Disposal of Treasury Stock and Research and Manpower Development

Reserves for loss on disposal of treasury stock and research and manpower development were appropriated in order to recognize certain tax deductible benefits through the early recognition of future expenditures for tax purposes. These reserves will be reversed from appropriated retained earnings in accordance with the relevant tax laws. Such reversal will be included in taxable income in the year of reversal.

d. Reserve for Business Expansion

The reserve for business expansion is voluntary and was approved by the board of directors and stockholders.

**14. TREASURY STOCK**

Upon issuances of stock dividends and new common stock, and the merger with Shinsegi Telecomm, Inc. and SK IMT Co., Ltd., the Company acquired fractional shares totaling 77,970 shares for ₩6,110 million through 2004. In addition, the Company acquired 8,584,445 shares of treasury stock in the market or through the trust funds for ₩2,040,995 million through 2004 in order to stabilize the market price of its stock. In addition, during the six months ended June 30, 2006, the convertible bonds with a principal amount of US\$18,420,000 were converted into 99,361 shares of common stock. Such conversion was settled by the Company by using its treasury stock with carrying value totaling ₩23,481 million, which resulted in the Company recording ₩176 million of gain on disposal of treasury stock.

## 15. STOCK OPTIONS

On March 17, 2000, March 16, 2001 and March 8, 2002, in accordance with the approval of its stockholders or its board of directors, the Company granted stock options to its management, representing 17,800 shares at an exercise price of ₩424,000 per share, 43,820 shares at an exercise price of ₩211,000 per share and 65,730 shares at an exercise price of ₩267,000 per share. The stock options will become exercisable after three years from the date of grant and shall be exercisable for two years from the first exercisable date. Upon exercise of stock options, the Company will issue its common stock. If the employees leave the Company within three years after the grant of stock options, such employees forfeit their unvested stock options awarded. Stock options representing 530 shares for which total compensation cost was ₩3 million and stock options representing 1,000 shares for which total compensation cost was ₩49 million were forfeited during the year ended December 31, 2004 and six months ended June 30, 2004, respectively.

The value of stock options granted is determined using the Black-Scholes option-pricing model, without considering the volatility factor in estimating the value of its stock options, as permitted under Korean GAAP. The following assumptions are used to estimate the fair value of options granted in 2000, 2001 and 2002; risk-free interest rate of 9.1% for 2000, 5.9% for 2001 and 6.2% for 2002; expected life of three years for 2000, 2001 and 2002; expected dividend of ₩500 per share for 2000, 2001 and 2002. Under these assumptions, total compensation cost, the recognized compensation cost (included in labor cost) for the three months and six months ended June 30, 2006 and 2005 and the outstanding balance of stock options in capital adjustment as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

| Grant date                | Total<br>Compensation<br>cost | Recognized<br>compensation<br>cost<br>for the three<br>months<br>ended June 30, |      | Recognized<br>compensation cost<br>for the six months<br>ended June 30, |       | Stock options in<br>capital adjustment<br>June 30,<br>December 31, |         |
|---------------------------|-------------------------------|---|------|---|-------|--|---------|
|                           |                               | 2006  | 2005 | 2006  | 2005  | 2006   | 2005    |
| March 17, 2000(Note<br>a) | ₩ 1,533                       | ₩   | ₩    | ₩   | ₩     | ₩  | ₩       |
| March 16, 2001(Note<br>b) | 234                           |   |      |   |       |  | 234     |
| March 8, 2002             | 3,246                         |   |      |   | 180   | 3,246  | 3,246   |
|                           | ₩ 5,013                       | ₩   | ₩    | ₩   | ₩ 180 | ₩ 3,246  | ₩ 3,480 |

(Note a) During the year ended December 31, 2005, the exercisable period expired for stock options representing 17,800 shares, for which the Company had recognized compensation cost of ₩1,533 million. The related capital adjustment of ₩1,533 million was transferred to capital surplus.

(Note b) During the six months ended June 30, 2006, the exercisable period expired for stock options representing 17,800 shares, for which the Company had recognized compensation cost of ₩234 million. The related capital adjustment of ₩234 million was transferred to capital surplus.

The pro forma net income and net income per common share, if the Company had not excluded the volatility factor (expected volatility of 66.8% for options granted in 2000, 67.5% for options granted in 2001 and 63.0% for options granted in 2002) in estimating the value of its stock options, for the three months and six months ended June 30, 2006, 2005 and 2004 are as follows:

|   | For the three months ended June 30, |          |          |
|---|-------------------------------------|----------|----------|
|   | 2006                                | 2005     | 2004     |
| Pro forma ordinary income (In millions of Korean won) | ₩526,384                            | ₩650,695 | ₩410,235 |
| Pro forma ordinary income per share (In Korean won)   | 5,068                               | 6,345    | 4,052    |
| Pro forma net income (In millions of Korean won)      | 373,338                             | 467,110  | 298,282  |
| Pro forma net income per share (In Korean won)        | 5,068                               | 6,345    | 4,052    |

|   | For the six months ended June 30, |            |            |
|---|-----------------------------------|------------|------------|
|   | 2006                              | 2005       | 2004       |
| Pro forma ordinary income (In millions of Korean won) | ₩1,004,702                        | ₩1,197,602 | ₩1,079,869 |
| Pro forma ordinary income per share (In Korean won)   | 9,648                             | 11,346     | 10,190     |
| Pro forma net income (In millions of Korean won)      | 710,498                           | 835,230    | 750,159    |
| Pro forma net income per share (In Korean won)        | 9,648                             | 11,346     | 10,190     |

## 16. INCOME TAX

### a. Details of income tax expense

Income tax expenses for the six months ended June 30, 2006 and 2005 consist of the following (In millions of Korean won):

|                                    | 2006      | 2005      |
|------------------------------------|-----------|-----------|
| Current                            | ₩ 329,879 | ₩ 341,997 |
| Deferred (Note a)                  | (35,675)  | 20,375    |
| Income tax expenses                | 294,204   | 362,372   |
| Less: three months ended March 31, | (141,158) | (178,787) |
| Three months ended June 30,        | ₩ 153,046 | ₩ 183,585 |

(Note a) Changes in net deferred tax liabilities for the six months ended June 30, 2006 and 2005 are as follows (In millions of Korean won):

|   | 2006      | 2005      |
|---|-----------|-----------|
| Ending balance of net deferred tax liabilities    | ₩ 339,252 | ₩ 349,168 |
| Beginning balance of net deferred tax liabilities | (348,563) | (323,096) |

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|  |            |          |
|--|------------|----------|
| Adjustment to the beginning net deferred income tax liabilities based on tax return filed                      | 4,424      | 8,536    |
| Tax effect of temporary differences charged or credited directly to related components of stockholders' equity | (30,788)   | (14,233) |
|  | (₩ 35,675) | ₩ 20,375 |

## b. Reconciling items between accounting income and taxable income

Reconciling items between accounting income and taxable income for the six months ended June 30, 2006 and 2005 are as follows (In millions of Korean won):

|   | 2006      | 2005      |
|---|-----------|-----------|
| <b>(Temporary Differences)</b>                                    |           |           |
| <b><u>Additions:</u></b>  |           |           |
| Allowance for doubtful accounts                                   | ₩ 130,375 | ₩ 87,035  |
| Accrued interest income prior period                              | 3,931     | 4,423     |
| Reserves for research and manpower development                    | 94,000    | 65,733    |
| Reserves for loss on disposal of treasury stock                   | 118,570   |           |
| Equity in losses of affiliates                                    | 23,026    | 37,198    |
| Unrealized losses on valuation of long-term investment securities |           | 26,286    |
| Accrued expenses  | 15,300    |           |
| Depreciation  | 28,669    | 8,665     |
| Loss on impairment of other assets                                | 1,980     |           |
| Loss on valuation of currency swap                                | 9,125     |           |
| Loss on valuation of currency swap (capital adjustments)          | 17,004    |           |
| Accrued severance indemnities                                     | 19,622    | 10,708    |
| Deposits for severance indemnities                                | 148,610   | 7,616     |
| Consideration of conversion right                                 | 11,876    |           |
| Other   | 41,454    | 38,533    |
| Sub-total   | 663,542   | 286,197   |
| <b><u>Deductions:</u></b>   |           |           |
| Reserves for research and manpower development                    | (90,000)  | (65,000)  |
| Allowance for doubtful accounts prior period                      | (124,184) | (59,612)  |
| Depreciation prior period   | (9,802)   | (39,287)  |
| Accrued interest income   | (5,661)   | (6,947)   |
| Equity in earnings of affiliates                                  | (19,287)  | (18,167)  |
| Unrealized gains on valuation of long-term investment securities  | (130,269) |           |
| Accrued severance indemnities                                     | (155,046) | (7,616)   |
| Deposits for severance indemnities                                | (3,458)   | (102)     |
| Loss on impairment of other assets prior period                   | (5,109)   | (19,579)  |
| Loss on disposal of property, equipment                           | (38,656)  |           |
| Gain on valuation of currency swap                                |           | (2,645)   |
| Gain on valuation of currency swap (capital adjustments)          |           | (21,702)  |
| Other   | (12,717)  | (11,728)  |
| Sub-total   | (594,189) | (252,385) |
| Total Temporary Differences                                       | 69,353    | 33,812    |
| <b>(Permanent Differences)</b>                                    | 220,901   | 73,171    |



Total

₩ 290,254

₩ 106,983

## c. Change in cumulative temporary differences and deferred tax liabilities

Changes in cumulative temporary differences for the six months ended June 30, 2006 and 2005 and deferred tax assets and liabilities as of June 30, 2006 and 2005 are as follows (In millions of Korean won):

For the six months ended June 30, 2006

| Description   | January 1,<br>2006 | Increase<br>(Note a) | Decrease<br>(Note a) | June 30,<br>2006 |
|---|--------------------|----------------------|----------------------|------------------|
| Current:  |                    |                      |                      |                  |
| Allowance for doubtful accounts                                 | ₩ 122,561          | ₩ 110,419            | ₩ 124,184            | ₩ 108,796        |
| Accrued interest income   | (3,931)            | (3,461)              | (3,931)              | (3,461)          |
| Accrued expenses  | 61,967             | 15,514               | 19,286               | 58,195           |
| Other   | 189,548            | 10,710               | 3,728                | 196,530          |
| <b>Total</b>  | <b>370,145</b>     | <b>133,182</b>       | <b>143,267</b>       | <b>360,060</b>   |
| Temporary differences unlikely to be realized                   | (147,774)          |                      | (19,219)             | (128,555)        |
| <b>Total current cumulative temporary differences-net</b>       | <b>₩ 222,371</b>   | <b>₩ 133,182</b>     | <b>₩ 124,048</b>     | <b>₩ 231,505</b> |
| Current deferred tax assets-net (Note b)                        | ₩ 61,152           |                      |                      | ₩ 63,664         |
| Non-current:  |                    |                      |                      |                  |
| Property and equipment  | ₩ (196,446)        | ₩ 14,089             | ₩ 20,067             | ₩ (202,424)      |
| Loss on impairment of long-term investment securities           | 108,145            |                      |                      | 108,145          |
| Loss on impairment of other long-term assets                    | 7,461              |                      | 5,480                | 1,981            |
| Reserves for research and manpower development                  | (768,000)          | (90,000)             | (94,000)             | (764,000)        |
| Reserves for loss on disposal of treasury stock                 | (474,081)          |                      | (118,570)            | (355,511)        |
| Equity in (earnings) losses of affiliates                       | 5,379              | 13,594               | 5,380                | 13,593           |
| Equity in capital adjustment of affiliates                      | (109,468)          |                      | (12,269)             | (97,199)         |
| Unrealized loss on valuation of long-term investment securities | 58,116             |                      | 132,905              | (74,789)         |
| Accrued severance indemnities                                   | 148,465            | 19,768               | 155,046              | 13,187           |
| Deposits for severance indemnities                              | (148,465)          | (3,604)              | (148,610)            | (3,459)          |
| Loss on valuation of currency swap                              | 13,244             | 9,125                |                      | 22,369           |
| Loss on valuation of currency swap (capital adjustment)         | 19,554             | 17,004               |                      | 36,558           |
| Loss on valuation of interest rate swap (capital adjustment)    |                    | 802                  |                      | 802              |
| Considerations for conversion right                             | (67,279)           |                      | (3,762)              | (63,517)         |
| Other   | (21,051)           | 25,940               | (11,253)             | 16,142           |

|   |               |            |            |               |
|---|---------------|------------|------------|---------------|
| Total   | (1,424,426)   | 6,718      | ₩ (69,586) | (1,348,122)   |
| Temporary differences unlikely to be realized           | (65,447)      | (52,201)   | (620)      | (117,028)     |
| Total non-current cumulative temporary differences-net  | ₩ (1,489,873) | ₩ (45,483) | ₩ (72,206) | ₩ (1,465,150) |
| Total non-current deferred tax liabilities-net (Note b) | ₩ (409,715)   |            |            | ₩ (402,916)   |

(Note a) These changes include adjustment to reflect the change in accumulated temporary differences based on the prior year tax return.

(Note b) The tax rate used in measuring deferred tax assets and liabilities is 27.5%.

For the six months ended June 30, 2005

| Description  | January 1,<br>2005 | Increase<br>(Note b) | Decrease<br>(Note b) | June 30,<br>2005 |
|--|--------------------|----------------------|----------------------|------------------|
| Current:   |                    |                      |                      |                  |
| Allowance for doubtful accounts                                    | ₩ 59,622           | ₩ 87,026             | ₩ 59,612             | ₩ 87,036         |
| Accrued interest income  | (7,796)            | (3,574)              | (4,423)              | (6,947)          |
| Accrued expenses   | 64,459             | 5,379                | 11,428               | 58,410           |
| Other  | 170,541            | (1,237)              | 5,141                | 164,163          |
| Total  | 286,826            | 87,594               | 71,758               | 302,662          |
| Temporary differences unlikely to be realized<br>(Note a)          | (128,555)          |                      |                      | (128,555)        |
| Total current cumulative temporary<br>differences-net              | ₩ 158,271          | ₩ 87,594             | ₩ 71,758             | ₩ 174,107        |
| Current deferred tax assets-net (Note c)                           | ₩ 43,525           |                      |                      | ₩ 47,879         |
| Non-current:   |                    |                      |                      |                  |
| Property and equipment   | ₩ ( 127,822)       | ₩ ( 29,635)          | ₩ 4,086              | ₩ ( 161,543)     |
| Loss on impairment of long-term investment<br>securities           | 106,752            |                      | 400                  | 106,352          |
| Loss on impairment of other long-term assets                       | 21,070             | 8,467                | 19,579               | 9,958            |
| Reserves for research and manpower<br>development                  | (709,467)          | (65,000)             | (65,733)             | (708,734)        |
| Reserves for loss on disposal of treasury stock                    | (474,081)          |                      |                      | (474,081)        |
| Equity in (earnings) losses of affiliates                          | (89,441)           | 19,031               |                      | (70,410)         |
| Equity in capital adjustment of affiliates                         |                    | (113,987)            |                      | (113,987)        |
| Unrealized loss on valuation of long-term<br>investment securities |                    | 116,128              |                      | 116,128          |
| Accrued severance indemnities                                      | 139,524            | 7,321                | 7,616                | 139,229          |
| Deposits for severance indemnities                                 | (139,524)          | (7,321)              | (7,616)              | (139,229)        |
| Loss on valuation of derivative instruments                        | 15,789             |                      | 2,645                | 13,144           |
| Loss on valuation of derivative instruments<br>-capital adjustment |                    | 27,750               |                      | 27,750           |
| Considerations for conversion right                                |                    | (67,279)             |                      | (67,279)         |
| Other  | (75,966)           | 81,766               | 22,245               | (16,445)         |
| Total  | (1,333,166)        | (22,759)             | (16,778)             | (1,339,147)      |
| Temporary differences unlikely to be realized<br>(Note a)          |                    | (104,664)            |                      | (104,664)        |

|   |               |             |            |               |
|---|---------------|-------------|------------|---------------|
| Total non-current cumulative temporary differences-net  | ₩ (1,333,166) | ₩ (127,423) | ₩ (16,778) | ₩ (1,443,811) |
| Total non-current deferred tax liabilities-net (Note c) | ₩ (366,621)   |             |            | ₩ (397,047)   |

(Note a) Through 2004, the tax effects of temporary differences, which are unlikely to be realized, and temporary differences directly adjusted to capital surplus or capital adjustments, such as net unrealized loss on valuation of long-term investment securities, were excluded in determining the net deferred tax assets or liabilities. However, effective January 1, 2005, pursuant to adoption of SKAS No. 16 Income Taxes , temporary differences are presented on a gross basis, including temporary differences which are unlikely to be realized. In addition, tax

effects of temporary differences related to adjustments made directly to capital surplus or capital adjustments are included in determining the net deferred tax assets or liabilities.

(Note b) These changes include adjustment to reflect the change in accumulated temporary differences based on the prior year tax return.

(Note c) The tax rate used in measuring deferred tax assets and liabilities is 27.5%.

Deferred tax assets and liabilities before offsetting each other are as follows (In millions of Korean won):

|  | June 30, 2006 | December 31,<br>2005 |
|--|---------------|----------------------|
| Deferred tax assets                    | ₩ 140,687     | ₩ 192,044            |
| Deferred tax liabilities               | (479,939)     | (540,607)            |
| Deferred tax assets (liabilities), net | ₩ (339,252)   | ₩ (348,563)          |
| Current, net                           | ₩ 63,664      | ₩ 61,152             |
| Non-current, net                       | ₩ (402,916)   | ₩ (409,715)          |

d. Deferred tax assets (liabilities) added to (deducted from) capital surplus or capital adjustments

Deferred tax assets (liabilities) added to (deducted from) capital surplus or capital adjustments as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

|   | June 30,<br>2006 | December 31,<br>2005 |
|---|------------------|----------------------|
| Gains on disposal of treasury stock                             | ₩ (30,226)       | ₩ (30,576)           |
| Considerations for conversion right                             | (17,467)         | (18,502)             |
| Unrealized loss on valuation of long-term investment securities | (20,567)         | 15,982               |
| Equity in capital adjustment of affiliates, net                 | (32,871)         | (32,350)             |
| Loss on valuation of currency swap                              | 10,053           | 5,377                |
| Loss on valuation of interest rate swap                         | 221              |                      |
| Total   | ₩ (90,857)       | ₩ (60,069)           |

e. Effective tax rate

Effective tax rates for the three months and six months ended June 30, 2006 and 2005 are as follows (In millions of Korean won):

|                          | For the<br>three months ended |                  | For the<br>six months ended |               |
|--------------------------|-------------------------------|------------------|-----------------------------|---------------|
|                          | June 30,<br>2006              | June 30,<br>2005 | June 30,<br>2006            | June 30, 2005 |
| Income before income tax | ₩ 526,384                     | ₩ 650,695        | ₩ 1,004,702                 | ₩ 1,197,900   |
| Income tax expenses      | 153,046                       | 183,585          | 294,204                     | 362,372       |
| Effective tax rate       | 29.07%                        | 28.21%           | 29.28%                      | 30.25%        |

**17. NET INCOME AND ORDINARY INCOME PER SHARE**

The Company's net income and ordinary income per share amounts for the three months and six months ended June 30, 2006 and 2005 are computed as follows (In millions of Korean won, except for per share income per share):

Net income and ordinary income per share

|  | For the<br>three months ended |                  | For the<br>six months ended |                  |
|--|-------------------------------|------------------|-----------------------------|------------------|
|  | June 30,<br>2006              | June 30,<br>2005 | June 30,<br>2006            | June 30,<br>2005 |
| Net income and ordinary income                       | ₩ 373,338                     | ₩ 467,110        | ₩ 710,498                   | ₩ 835,528        |
| Weighted average number of common shares outstanding | 73,668,589                    | 73,614,296       | 73,614,592                  | 73,614,296       |
| Net income and ordinary income per share             | ₩ 5,068                       | ₩ 6,345          | ₩ 9,648                     | ₩ 11,350         |

Net income and ordinary income per share for the year ended December 31, 2005 were ₩ 25,421 and net income and ordinary income per share for the three months ended March 31, 2006 and 2005 are ₩ 4,580 and ₩ 5,005, respectively.

The weighted average number of common shares outstanding for the three months and six months ended June 30, 2006 and 2005 is calculated as follows:

|  | Number of<br>shares | Weighted<br>number of days | Weighted<br>number of<br>shares |
|--|---------------------|----------------------------|---------------------------------|
| For the three months ended June 30, 2006                     |                     |                            |                                 |
| At April 1, 2006   | 82,276,711          | 91 / 91                    | 82,276,711                      |
| Treasury stock, at the beginning                             | (8,662,415)         | 91 / 91                    | (8,662,415)                     |
| Conversion of convertible bonds into treasury stock (Note a) | 99,361              | 50 / 91(note a)            | 54,293                          |
| Total  | 73,713,657          |                            | 73,668,589                      |
| For the six months ended June 30, 2006                       |                     |                            |                                 |
| At January 1, 2006   | 82,276,711          | 181 / 181                  | 82,276,711                      |
| Treasury stock, at the beginning                             | (8,662,415)         | 181 / 181                  | (8,662,415)                     |
| Conversion of convertible bonds into Treasury stock (Note a) | 99,361              | 50 / 181(note a)           | 27,296                          |
| Total  | 73,713,657          |                            | 73,641,592                      |



(Note a) Treasury stocks were used to settle the conversion of the convertible bonds on several different dates in the first half of 2006 and weighted number of shares was calculated considering each transaction date.

|  | Number of<br>shares | Weighted<br>number of<br>days | Weighted<br>number of<br>shares |
|--|---------------------|-------------------------------|---------------------------------|
| For the three months ended June 30, 2005 |                     |                               |                                 |
| At April 1, 2005                         | 82,276,711          | 91 / 91                       | 82,276,711                      |
| Treasury stock, at the beginning         | (8,662,415)         | 91 / 91                       | (8,662,415)                     |
| <b>Total</b>                             | <b>73,614,296</b>   |                               | <b>73,614,296</b>               |
| For the six months ended June 30, 2005   |                     |                               |                                 |
| At January 1, 2005                       | 82,276,711          | 181 / 181                     | 82,276,711                      |
| Treasury stock, at the beginning         | (8,662,415)         | 181 / 181                     | (8,662,415)                     |
| <b>Total</b>                             | <b>73,614,296</b>   |                               | <b>73,614,296</b>               |

Diluted net income and ordinary income per share amounts for the three months and six months ended June 30, 2006 and 2005 are computed as follows (In millions of won, except for share data):

Diluted net income and ordinary income per share

|  | For the<br>three months ended |                  | For the<br>six months ended |                  |
|--|-------------------------------|------------------|-----------------------------|------------------|
|  | June 30,<br>2006              | June 30,<br>2005 | June 30,<br>2006            | June 30,<br>2005 |
| Adjusted net income and ordinary income                          | ₩ 376,630                     | ₩ 470,260        | ₩ 717,078                   | ₩ 841,794        |
| Adjusted weighted average number of<br>common shares outstanding | 75,391,469                    | 75,325,046       | 75,391,469                  | 75,325,046       |
| <b>Diluted net income and ordinary income<br/>per share</b>      | <b>₩ 4,996</b>                | <b>₩ 6,243</b>   | <b>₩ 9,511</b>              | <b>₩ 11,175</b>  |

Diluted net income and ordinary income per share for the year ended December 31, 2005 were ₩ 25,015 and diluted net income and ordinary income per share for the three months ended March 31, 2006 and 2005 are ₩ 4,516 and ₩ 4,932, respectively.

Adjusted net income and ordinary income per share and the adjusted weighted average number of common shares outstanding for the three months and six months ended June 30, 2006 and 2005 are calculated as follows:

|                                      | For the<br>three months ended |                  | For the<br>six months ended |                  |
|--------------------------------------|-------------------------------|------------------|-----------------------------|------------------|
|                                      | June 30,<br>2006              | June 30,<br>2005 | June 30,<br>2006            | June 30,<br>2005 |
| Net income and ordinary income       | ₩ 373,338                     | ₩ 467,110        | ₩ 710,498                   | ₩ 835,528        |
| Effect of stock options (Note a)     |                               |                  |                             |                  |
| Effect of convertible bonds (Note b) | 3,292                         | 3,150            | 6,580                       | 6,266            |

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Adjusted net income and ordinary income                       | ₩ 376,630    | ₩ 470,260    | ₩ 717,078    | ₩ 841,794    |
| Weighted average number of common shares outstanding          | 73,668,589   | 73,614,296   | 73,641,592   | 73,614,296   |
| Effect of stock options (Note a)                              |              |              |              |              |
| Effect of convertible bonds (Note b)                          | 1,722,880    | 1,710,750    | 1,749,877    | 1,710,750    |
| Adjusted weighted average number of common shares outstanding | ₩ 75,391,469 | ₩ 75,325,046 | ₩ 75,391,469 | ₩ 75,325,046 |

(Note a) For the three months and six months ended June 30, 2006 and 2005, the outstanding stock options did not have a dilutive effect because the exercise price exceeded the average market price of common stock for the three months and six months ended June 30, 2006 and 2005 and for the year ended December 31, 2005, respectively.

(Note b) The effect of convertible bonds increased net income related to interest expenses that would not have incurred, and increase in the weighted average number of common shares outstanding related to common shares that would have been issued, assuming that the conversion of convertible

bonds was made  
on the  
beginning of the  
period.

**18. RESTRICTED DEPOSITS**

- a. At June 30, 2006, the Company has restricted guarantee deposits for its checking accounts totaling ₩ 26 million and deposits totaling ₩ 10,000 million from which the interest incurred is restricted for use of the public interest until August 10, 2006, the due date.
- b. The Company entered into a contract with First Data Corporation to sell the investment in common stock of KPMS Corporation, which was held by the Company and accounted for as available-for-sale securities. Certain portion of proceeds from sales of such investment totaling ₩ 1,137 million is kept in escrow accounts in accordance with the Escrow Agreement, which is restricted for use until November 16, 2007, the final settlement date, and recorded as long-term deposits.

**19. INSURANCE**

As of June 30, 2006, certain Company's assets are insured with local insurance companies as follows (In millions of Korean won and thousands of U.S. dollars):

| Insured                | Risk                             | Carrying value | Coverage    |
|------------------------|----------------------------------|----------------|-------------|
|                        |                                  |                | US\$ 58,115 |
| Property and equipment | Fire and comprehensive liability | ₩ 3,306,612    | ₩ 7,255,411 |

In addition, the Company carries directors and officers liability coverage insurance totaling ₩ 50,000 million.

**20. RELATED PARTY TRANSACTIONS**

As of June 30, 2006 and December 31, 2005, a list of parent company and subsidiaries of the Company are as follows:

**a. Holding company and subsidiaries**

| Type                 | SK Corporation                             | Ownership percentage (%)        | Types of business                        |
|----------------------|--|---------------------------------|--|
| Parent company       | SK Corporation                             | 22.8(Note a)                    | Manufacturing and selling petrochemicals |
| Subsidiary           | SK Capital Co., Ltd.                       | 100                             | In arrangement to commence the business  |
|                      | SK Telink Co., Ltd.                        | 90.8                            | Telecommunication service                |
|                      | SK Communications Co., Ltd.                | 86.5                            | Internet website services                |
|                      | SK Wyverns Baseball Club Co., Ltd.         | 100.0                           | Business related sports                  |
|                      | Global Credit & Information Co., Ltd.      | 50.5                            | Credit and collection services           |
|                      | PAXNet Co., Ltd.                           | 67.1                            | Internet website services                |
|                      | Seoul Records, Inc.                        | 60.0                            | Release of music disc                    |
|                      | SLD Telecom PTE Ltd.                       | 73.3                            | Telecommunication service                |
|                      | SK Telecom China Co., Ltd.                 | 100.0                           | Telecommunication service                |
|                      | U-Land Company Limited                     | 70.1                            | Telecommunication service                |
|                      | SK Telecom USA Holdings, Inc.              | 100.0                           | Telecommunication service                |
|                      | SK Telecom International Inc.              | 100.0                           | Telecommunication service                |
|                      | Centurion IT Investment Association        | 37.5                            | Investment association                   |
|                      | The First Music Investment Fund of SK-PVC  | 69.3                            | Investment association                   |
|                      | The Second Music Investment Fund of SK-PVC | 79.3                            | Investment association                   |
|                      | SK-KTB Music Investment Fund               | 74.3                            | Investment association                   |
|                      | IMM Cinema Fund                            | 48.4                            | Investment association                   |
|                      | Cyworld, Inc.                              | 100.0                           | Internet website services                |
|                      | Cyworld Japan Co., Ltd.                    | 100.0                           | Internet website services                |
|                      | SK Cyberpass Inc.                          | 70.5                            | Telecommunication service                |
| Masoolpiri           | 51.4 (Note b)                              | Film production                 |  |
| YTN Media Inc.,      | 51.4 (Note b)                              | Broadcasting program production |  |
| Ntreev Soft Co., Ltd | 51.0 (Note b)                              | Game program production         |  |
| Ifilm Co., Ltd.      | 45.0 (Note b)                              | Film production                 |  |
| IHQ USA, Inc.        | 100.0 (Note b)                             | Surveying marketing information |  |

(Note a)

The ownership percentage represents parent company's ownership over the Company.

(Note b) The ownership percentage represents subsidiaries ownership over their subsidiary, in which the Company has no direct investment.

**b. Transactions and balances with related companies**

Significant related party transactions for the three months and six months ended June 30, 2006 and 2005, and account balances as of June 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

**b-(1) Transactions**

|   | For the three months ended June 30, 2006 |                                     |                             | For the six months ended June 30, 2006 |                                     |                             |
|---|--|-------------------------------------|-----------------------------|--|-------------------------------------|-----------------------------|
|   | Purchases of property and equipment      | Commissions paid and other expenses | Commission and other income | Purchases of property and equipment    | Commissions paid and Other expenses | Commission and other income |
| Parent Company:                         |  |                                     |                             |  |                                     |                             |
| SK Corporation                          | ₩ 565                                    | ₩ 7,747                             | ₩ 3,747                     | ₩ 853                                  | ₩ 15,958                            | ₩ 5,095                     |
| Subsidiaries:                           |  |                                     |                             |  |                                     |                             |
| SK Communications Co., Ltd.             | 11                                       | 12,562                              | 1,030                       | 11                                     | 20,099                              | 1,408                       |
| Global Credit & Information Co., Ltd.   |  | 5,406                               | 343                         |  | 16,370                              | 635                         |
| PAXNet Co., Ltd.                        |  | 2,287                               | 633                         |  | 4,813                               | 854                         |
| SK Telink Co., Ltd.                     |  | 5,427                               | 4,197                       |  | 8,314                               | 8,456                       |
| Others                                  |  | 752                                 |                             | 3                                      | 12,172                              |                             |
| Equity Method Investees:                |  |                                     |                             |  |                                     |                             |
| WiderThan Co., Ltd.                     | 350                                      | 26,090                              | 902                         | 967                                    | 47,996                              | 972                         |
| Helio, LLC.                             |  |                                     | 8,262                       |  |                                     | 12,922                      |
| SK C&C Co., Ltd.                        | 35,947                                   | 76,550                              | 2,085                       | 45,777                                 | 141,878                             | 3,868                       |
| Others                                  | 1,812                                    | 4,042                               | 12,112                      | 3,518                                  | 7,949                               | 22,098                      |
| Others :                                |  |                                     |                             |  |                                     |                             |
| SK Engineering & Construction Co., Ltd. | 46,205                                   | 929                                 | 762                         | 46,205                                 | 1,075                               | 1,391                       |
| SK Networks Co., Ltd.                   | 201                                      | 118,190                             | 3,170                       | 1,884                                  | 218,132                             | 5,464                       |
| Innoace Co., Ltd.                       | 1,045                                    | 2,410                               | 62                          | 1,384                                  | 2,866                               | 107                         |
| SK Telesys Co., Ltd.                    | 75,133                                   | 988                                 | 288                         | 83,740                                 | 1,167                               | 1,049                       |
| Others                                  | 29                                       | 1,233                               | 764                         | 29                                     | 3,252                               | 1,349                       |
| Total                                   | ₩ 161,298                                | ₩ 264,613                           | ₩ 38,357                    | ₩ 184,371                              | ₩ 502,041                           | ₩ 65,668                    |

|  | For the three months ended June 30, 2005 |                      |                | For the six months ended June 30, 2005 |                      |                |
|--|--|----------------------|----------------|--|----------------------|----------------|
|  | Purchases of property and equipment      | Commissions paid and | Commission and | Purchases of property and equipment    | Commissions paid and | Commission and |



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|  |           | other<br>expenses | other<br>income |           | Other<br>expenses | other<br>income |
|--|-----------|-------------------|-----------------|-----------|-------------------|-----------------|
| Parent Company:                            |           |                   |                 |           |                   |                 |
| SK Corporation                             | ₩ 259     | ₩ 14,329          | ₩ 3,188         | ₩ 470     | ₩ 23,073          | ₩ 4,168         |
| Subsidiaries:                              |           |                   |                 |           |                   |                 |
| SK Communications<br>Co., Ltd.             |           | 11,477            | 251             | 126       | 18,910            | 485             |
| Global Credit &<br>Information Co., Ltd.   |           | 8,685             | 271             |           | 15,962            | 474             |
| PAXNet Co., Ltd.                           |           | 4,093             | 593             |           | 9,386             | 1,007           |
| SK Telink Co., Ltd.                        |           | 3,662             | 4,301           |           | 6,408             | 7,153           |
| Others                                     | 576       | 6,713             | 591             | 576       | 14,030            | 976             |
| Equity Method<br>Investees:                |           |                   |                 |           |                   |                 |
| WiderThan Co., Ltd.                        | 3,317     | 24,512            | 25              | 4,562     | 45,874            | 32              |
| SK C&C Co., Ltd.                           | 24,277    | 74,570            | 2,427           | 28,056    | 143,099           | 4,243           |
| Others                                     |           | 4,310             | 6,011           | 90        | 6,890             | 9,162           |
| Others:                                    |           |                   |                 |           |                   |                 |
| SK Engineering &<br>Construction Co., Ltd. | 48,883    | 495               | 657             | 50,147    | 594               | 896             |
| SK Networks Co., Ltd.                      | 436       | 108,650           | 4,647           | 1,126     | 205,145           | 7,221           |
| Innoace Co., Ltd.                          | 3,981     | 427               | 59              | 4,646     | 1,116             | 110             |
| SK Telesys Co., Ltd.                       | 53,123    | 1,378             | 136             | 66,805    | 1,536             | 190             |
| Others                                     | 270       | 1,739             | 677             | 288       | 3,232             | 1,067           |
| Total                                      | ₩ 135,122 | ₩ 265,040         | ₩ 23,834        | ₩ 156,892 | ₩ 495,255         | ₩ 37,184        |

**b-(2) Account balances**

|   | As of June 30, 2006 |                  |                 |                    |                  |                             |
|---|---------------------|------------------|-----------------|--------------------|------------------|-----------------------------|
|   | Accounts receivable | Short-term loans | Long-term loans | Guarantee deposits | Accounts payable | Guarantee deposits received |
| Parent Company:                         |                     |                  |                 |                    |                  |                             |
| SK Corporation.                         | ₩ 2,693             | ₩                | ₩               | ₩ 291              | ₩ 6,794          | ₩ 6,174                     |
| Subsidiaries:                           |                     |                  |                 |                    |                  |                             |
| SK Communications Co., Ltd.             | 401                 |                  |                 |                    | 10,163           | 3,681                       |
| SK Wyverns Baseball Club Co., Ltd.      | 236                 | 575              | 4,706           |                    |                  |                             |
| Global Credit & Information Co., Ltd.   | 34                  |                  |                 |                    | 6,033            |                             |
| PAXNet Co., Ltd.                        | 114                 |                  |                 |                    | 794              |                             |
| SK Telink Co., Ltd.                     | 1,260               |                  |                 |                    | 1,763            | 826                         |
| Equity Method Investees:                |                     |                  |                 |                    |                  |                             |
| WiderThan Co., Ltd.                     |                     |                  |                 |                    | 8,430            |                             |
| SK C&C Co., Ltd.                        | 148                 |                  |                 |                    | 45,318           | 346                         |
| Helio, LLC.                             | 12,921              |                  |                 |                    |                  |                             |
| Others                                  | 5,589               |                  |                 |                    | 5,463            | 3,183                       |
| Others:                                 |                     |                  |                 |                    |                  |                             |
| SK Engineering & Construction Co., Ltd. | 156                 |                  |                 |                    | 1,062            | 942                         |
| SK Networks Co., Ltd.                   | 627                 |                  |                 | 113                | 34,895           | 2,967                       |
| Innoace Co., Ltd.                       |                     |                  |                 |                    | 3,319            | 2,291                       |
| SK Telesys Co., Ltd.                    | 9                   |                  |                 |                    | 40,126           |                             |
| Others                                  | 472                 |                  |                 | 900                | 802              |                             |
| Total                                   | ₩ 24,660            | ₩ 575            | ₩ 4,706         | ₩ 1,304            | ₩ 164,962        | ₩ 20,410                    |

|                             | As of December 31, 2005 |                  |                 |                    |                  |                             |
|-----------------------------|-------------------------|------------------|-----------------|--------------------|------------------|-----------------------------|
|                             | Accounts receivable     | Short-term loans | Long-term loans | Guarantee deposits | Accounts payable | Guarantee deposits received |
| Parent Company:             |                         |                  |                 |                    |                  |                             |
| SK Corporation              | ₩ 1,643                 | ₩                | ₩               | ₩ 1,307            | ₩ 6,767          | ₩ 6,174                     |
| Subsidiaries:               |                         |                  |                 |                    |                  |                             |
| SK Communications Co., Ltd. | 195                     |                  |                 |                    | 5,891            | 3,681                       |
|                             | 527                     | 1,150            | 4,706           |                    |                  |                             |

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|   |          |         |         |         |           |          |
|---|----------|---------|---------|---------|-----------|----------|
| SK Wyverns Baseball Club Co., Ltd.      |          |         |         |         |           |          |
| Global Credit & Information Co., Ltd.   | 70       |         |         |         | 6,533     |          |
| PAXNet Co., Ltd.                        | 401      |         |         |         | 2,077     |          |
| SK Telink Co., Ltd.                     | 436      |         |         |         | 1,179     | 514      |
| Others                                  | 2        |         |         |         | 2,755     | 70       |
| Equity Method Investees:                |          |         |         |         |           |          |
| WiderThan Co., Ltd.                     | 4        |         |         |         | 17,398    |          |
| SK C&C Co., Ltd.                        | 91       |         |         |         | 174,884   | 346      |
| Helio, LLC.                             | 11,914   |         |         |         |           |          |
| Others                                  | 6,048    |         |         |         | 4,154     | 3,062    |
| Others:                                 |          |         |         |         |           |          |
| SK Engineering & Construction Co., Ltd. | 97       |         |         |         | 21,326    | 942      |
| SK Networks Co., Ltd.                   | 1,760    |         | 113     |         | 20,465    | 2,700    |
| Innoace Co., Ltd.                       |          |         |         |         | 6,100     | 2,138    |
| SK Telesys Co., Ltd.                    | 3        |         |         |         | 65,496    |          |
| Others                                  | 223      |         | 900     |         | 7,495     |          |
| Total                                   | ₩ 23,414 | ₩ 1,150 | ₩ 4,706 | ₩ 2,320 | ₩ 342,520 | ₩ 19,627 |

**c. Compensation for the key management**

| Payee  | For the three months ended<br>June 30, 2006 |                          |       | For the six months ended<br>June 30, 2006 |                          |         |
|--|---|--------------------------|-------|---|--------------------------|---------|
|  | Payroll                                     | Severance<br>indemnities | Total | Payroll                                   | Severance<br>indemnities | Total   |
| Registered directors<br>(including eight outside<br>directors) | ₩ 542                                       | ₩ 136                    | ₩ 678 | ₩ 3,180                                   | ₩ 662                    | ₩ 3,842 |

In addition, on March 8, 2002, the Company granted stock options to its nine key members of the management, representing 15,110 shares at an exercise price of ₩267,000 per share. The stock options fully vested after three years from the date of grant and are exercisable for two years upon vesting. Upon exercise of stock options, the Company will issue its common stock or deliver treasury stock. In May 2006, stock options representing 1,000 shares were forfeited due to the resignation of one outside director.

**21. PROVISION FOR MILEAGE POINTS**

The Company, for its marketing purposes, grants certain mileage points ( Rainbow Points ) to its subscribers based on their usage of the Company's services. Rainbow Points provision was provided based on the historical usage experience and the Company's marketing policy. Such provision was recorded as accrued expenses and details of change in the provisions for such mileage points for the six months ended June 30, 2006 and 2005 are as follows (In millions of Korean won):

|                   | June 30,<br>2006<br>(Note a) | June 30,<br>2005<br>(Note a) |
|-------------------|------------------------------|------------------------------|
| Beginning balance | ₩ 52,172                     | ₩ 61,596                     |
| Increase          | 5,606                        | 5,159                        |
| Decrease          | (6,093)                      | (8,816)                      |
| Ending balance    | ₩ 51,685                     | ₩ 57,939                     |

(Note a) Beginning and ending balances for the six months ended June 30, 2006 are discounted value in accordance with SKAS No. 17 and beginning and ending balances for the six months ended June 30, 2005 are stated at their nominal

values.

Rainbow Points expire after 5 years; thus, all unused points are expired on their fifth anniversary. The expected year when unused Rainbow Points as of June 30, 2006 are expected to be used and the respective estimated monetary amount to be paid in a given year are as follows (In millions of Korean won):

| Expected year         | Estimated amount to<br>be paid |        | Current value |
|-----------------------|--------------------------------|--------|---------------|
|                       | In nominal value<br>(Note b)   |        |               |
| Of the usage (Note b) |                                |        |               |
| Within June 2007      | ₩                              | 26,314 | ₩ 25,013      |
| Within June 2008      |                                | 15,739 | 14,222        |
| Within June 2009      |                                | 8,384  | 7,201         |
| Within June 2010      |                                | 4,328  | 3,534         |
| Within June 2011      |                                | 2,210  | 1,715         |
| <br>                  |                                |        |               |
| Ending balance        | ₩                              | 56,975 | ₩ 51,685      |

(Note b) The above expected year of the usage and the current value of the estimated amount to be paid are estimated based on the historical usage experience.

## 22. DERIVATIVE INSTRUMENTS

### a. Currency swap

The Company has entered into a fixed-to-fixed cross currency swap contract with Citibank, BNP Paribas and Credit Suisse First Boston International to hedge the foreign currency risk of unguaranteed U.S. dollar denominated bonds with face amounts totaling US\$300,000,000 at annual fixed interest rate of 4.25% issued on April 1, 2004. As of June 30, 2006, in connection with unsettled foreign currency swap contract to which the cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ₩26,505 million (excluding tax effect totaling ₩10,053 million and foreign exchange translation gain arising from unguaranteed U.S. dollar denominated bonds totaling ₩56,322 million) was accounted for as a capital adjustment.

In addition, the Company has entered into a fixed-to-fixed cross currency swap contract with Credit Suisse First Boston International to hedge foreign currency risk of unguaranteed U.S. dollar denominated convertible bonds with face amounts of US\$329,450,000 issued on May 27, 2004. In connection with unsettled fixed-to-fixed cross currency swap contract to which the cash flow hedge accounting is not applied, loss on valuation of currency swap of ₩9,125 million for the six months ended June 30, 2006 and gains on valuation of currency swap of ₩2,645 million for the six months ended June 30, 2005 were charged to current operations.

b. Interest rate swap

The Company has entered into a floating-to-fixed interest rate swap contract with Shinhan Bank to hedge the interest rate risk of floating rate discounted bill with face amounts totaling ₩200,000 million indebted on June 29, 2006. As of June 30, 2006, in connection with unsettled interest rate swap contract to which the cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ₩582 million (excluding tax effect totaling ₩220 million) was accounted for as a capital adjustment.

As of June 30, 2006, fair values of above derivatives are recorded in long-term liabilities and details of derivative instruments as of June 30, 2006 are as follows (In thousands of U.S. dollars and millions of Korean won):

| Type                                 | Hedged item   | Face Amount  | Duration of contract           | Designated as cash flow hedge | Fair value     |        | Total     |
|--------------------------------------|---|--------------|--------------------------------|-------------------------------|----------------|--------|-----------|
|                                      |   |              |                                |                               | Not designated |        |           |
| Fix-to-fixed cross currency swap     | Unguaranteed U.S. dollar denominated bonds            | US\$ 300,000 | March 23, 2004 ~ April 1, 2011 | ₩ 92,880                      | ₩              |        | ₩ 92,880  |
| Fix-to-fixed cross currency swap     | Unguaranteed U.S. dollar denominated convertible bond | US\$ 100,000 | May 27, 2004 ~ May 27, 2009    |                               |                | 22,369 | 22,369    |
|                                      |   |              |                                | 92,880                        |                | 22,369 | 115,249   |
| Floating-to-fixed Interest rate swap | Long-term floating rate discounted bill               | ₩200,000     | June 29, 2006 ~ June 29, 2010  | 802                           |                |        | 802       |
|                                      |   |              |                                | ₩ 93,682                      | ₩ 22,369       |        | ₩ 116,051 |



**23. COMMITMENTS**

In accordance with the resolution of the Company's board of directors dated January 26, 2005, the Company and EarthLink, Inc., an internet service provider in the United States of America, agreed to establish Helio, LLC, a joint venture company, in the United States of America in February 2005 in order to provide wireless telecommunication service across the United States of America. The Company, via SK Telecom USA Holdings, Inc., its wholly-owned subsidiary in the United States of America, has invested US\$161.5 million from 2005 through June 30, 2006 and will additionally invest US\$58.5 million through 2007 for a 50% equity interest in the joint venture company. Helio, LLC, launched cellular voice and data services extensively across the United States of America in May 2006 by renting networks from network operators throughout the United States of America also known as partial mobile virtual network operator (MVNO) system.

**24. STATEMENTS OF CASH FLOWS**

The statements of cash flows are prepared using the indirect method and significant non-cash transactions for the three months and six months ended June 30, 2006 are as follows (In millions of Korean won):

|                                 | For the three<br>months<br>ended June 30,<br>2006 | For the six months<br>ended June 30,<br>2006 |
|---------------------------------|---|--|
| Conversion of convertible bonds | ₩ 21,575  | ₩ 21,575                                     |

There was no significant non-cash transaction for the three months and six months ended June 30, 2005.

**25. SUBSEQUENT EVENTS****a. Retirement of treasury stock**

The board of directors of the Company resolved to acquire and retire 491,000 shares of the treasury stock. Upon the retirement of such treasury stock, the related purchase price will be recorded in the Company's retained earnings. The Company is scheduled to purchase the treasury stock from August 1, 2006 to October 31, 2006 and the daily order limit to purchase treasury stocks is 49,100 shares in accordance with the Act of Issuance and Public Announcement of the Securities No. 106.

**b. Interim dividend**

On July 28, 2006, the board of directors of the Company resolved to pay interim cash dividends of ₩1,000 per share totaling ₩73,714 million. The ex-dividend date was June 30, 2006 and the interim dividends are expected to be paid within twenty days after the date of the board of directors' resolution.

**c. Acquisition of equity interest in IHQ, Inc.**

The Company acquired additional 5,000,000 shares of IHQ, Inc.'s common stock by exercising its stock options at the exercise price of ₩5,740.49 per share on July 3, 2006 in order to strengthen the Company's communication service and platform business. As a result, the Company's ownership in IHQ, Inc. increased from 21.3% to 34.6% and the Company became the largest stockholder of IHQ, Inc.

**d. Acquisition of convertible bonds issued by China Unicom Limited**

The Company acquired convertible bonds (with principal amount of US\$1 trillion) issued by China Unicom for ₩955,119 million (US\$1 trillion) on July 5, 2006 in order to build a foundation to penetrate the telecommunication market in China through the business cooperation of China Unicom. The conversion right can be exercised during the period from July 5, 2007 to June 28, 2009 and if all conversion rights are exercised, the Company would acquire 899,745,075 shares of China Unicom and the Company's ownership in China Unicom would be 6.67%.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SK Telecom Co., Ltd.**

*(Registrant)*

By: /s/ Hyun Jong Song

*(Signature)*

Name: Hyun Jong Song

Title: Vice President

Date: September 25 , 2006